NEW ISSUE - Book-Entry Only

RATINGS
Standard & Poor's: "AAA"
Ambac Insured
See "RATINGS" herein

In the opinion of Barnes & Thornburg, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Bonds (as *hereinafter defined) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of delivery of the Bonds. In the opinion of Bond Counsel, under existing laws, interest on the Bonds is exempt from income taxation in the State of Indiana (the "State") for all purposes, except for the State financial institutions tax.* See "TAX MATTERS" herein and Appendix C.

$9,500,000
INDIANA BOND BANK
SPECIAL PROGRAM BONDS, SERIES 2001B
(Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project)

Dated: Date of Delivery **Due: February 1, As Shown Below**

The Special Program Bonds, Series 2001B (Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project) (the "Bonds") are to be issued by the Indiana Bond Bank (the "Bond Bank"), pursuant to a Trust Indenture, dated as of June 1, 2001 (the "Indenture"), between the Bond Bank and First National Bank, Valparaiso, Valparaiso, Indiana., as trustee (the "Trustee"), will bear interest from the date of delivery of the Bonds at the rates per annum, and will mature on the dates and in the principal amounts set forth below. The Bonds will be issued only as fully registered Bonds in the denomination of $5,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interest in the Bonds will be made in book-entry-only form. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. Interest on the Bonds is payable on February 1and August 1, beginning February 1, 2002, and such interest, together with the principal of the Bonds, will be paid directly to DTC so long as the Bonds are held in book-entry-only form. The final disbursement of such payments to the Beneficial Owners of the Bonds will be the responsibility of the Direct Participants and the Indirect Participants, all as defined and more fully described herein. See "THE BONDS - Book-Entry-Only System".

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS- Optional Redemption and Mandatory Sinking Fund Redemption".

The Bonds are authorized by resolutions adopted by the Board of Directors of the Bond Bank and are issued under and secured by the Indenture, all pursuant to the laws of the State, particularly Indiana Code Title 5, Article 1.5 (the "Act"), for the purpose of: (a) providing funds to purchase: (i) the Redevelopment District Bonds of 2001 (the "Redevelopment District Bonds") issued by the Burns Harbor Redevelopment Commission (the "Redevelopment Commission"), in the name of the Town of Burns Harbor, Indiana (the "Town"), to finance a portion of the cost of certain sewer improvements in, serving or benefitting an economic development area within the Town (the "Project"); and (ii) the General Obligation Bonds of 2001 (the "General Obligation Bonds") issued by the Town to finance a portion of the cost of the Project; (b) funding the Debt Service Reserve Fund created pursuant to the Indenture; (c) paying a portion of the interest due on the Bonds on February 1, 2002; (d) paying the costs of issuance of the Bonds; and (e) paying the premium on the bond insurance policy securing the Bonds.

The Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture, as more fully described herein. The Bonds constitute a moral obligation of the Bond Bank to the extent of the debt service reserve maintained by the Bond Bank for the Bonds. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof, including the Redevelopment Commission and the Town (collectively, the "Qualified Entities"), under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the Qualified Entities. The Bond Bank has no taxing power.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

$6,285,000 Serial Bonds

Maturity	Amount	Interest Rate	Yield	Maturity	Amount	Interest Rate	Price or Yield
2/1/03	$460,000	3.35%	3.35%	2/1/09	$590,000	4.40%	4.40%
2/1/04	470,000	4.00	3.65	2/1/10	615,000	4.50	4.55
2/1/05	500,000	5.00	3.85	2/1/11	645,000	5.00	102.341
2/1/06	520,000	4.00	4.00	2/1/12	675,000	4.70	4.80
2/1/07	540,000	4.50	4.18	2/1/13	705,000	4.80	4.90
2/1/08	565,000	4.25	4.28				

$3,215,000 5.50% Term Bonds Due February 1, 2017 - Price: 101.856%

The Bonds are being offered when, as and if issued by the Bond Bank and received by the Underwriter set forth below, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank, by its general counsel, Barnes & Thornburg, Indianapolis, Indiana; for the Qualified Entities, by their bond counsel, Ice Miller, Indianapolis, Indiana, and their local counsel, Harris, Welsh & Lukmann, Chesterton, Indiana; for the State by its disclosure counsel, Krieg DeVault Alexander & Capehart, LLP; and for the Underwriter by its counsel, Ice Miller, Indianapolis, Indiana. It is expected that the Bonds will be available for delivery to DTC in New York, New York, on or about June 28, 2001.

City Securities Corporation

Dated: June 21, 2001

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

No dealer, broker, salesman or other person has been authorized by the Indiana Bond Bank, the Burns Harbor Redevelopment Commission or the Town of Burns Harbor, Indiana, to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Indiana Bond Bank, the Burns Harbor Redevelopment Commission or the Town of Burns Harbor, Indiana. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the securities described herein by any person in a jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the securities described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the Burns Harbor Redevelopment Commission or the Town of Burns Harbor, Indiana, since the date of this Official Statement.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Bonds offered hereby at levels above those which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

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INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its Special Program Bonds, Series 2001B (Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project) (the "Bonds"). The Bonds are authorized by resolutions adopted by the Board of Directors of the Bond Bank on May 1, 2001, and are issued under and secured by a Trust Indenture, dated as of June 1, 2001 (the "Indenture"), between the Bond Bank and First National Bank, Valparaiso, Valparaiso, Indiana, as trustee, registrar and paying agent (the "Trustee"), all pursuant to the laws of the State of Indiana (the "State"), particularly Indiana Code, Title 5, Article 1.5 (the "Act"), for the purpose of: (a) providing funds to purchase the: (i) the Redevelopment District Bonds of 2001 (the "Redevelopment District Bonds") issued by the Burns Harbor Redevelopment Commission (the "Redevelopment Commission"), in the name of the Town of Burns Harbor, Indiana (the "Town"), to finance a portion of the cost of the acquisition and improvement of a sewage treatment facility and the installation of a sanitary sewer collection system throughout the Town in, serving or benefitting the Allocation Area (as defined below) (the "Project"); and (ii) the General Obligation Bonds of 2001 (the "General Obligation Bonds") issued by the Town to finance a portion of the cost of the Project; (b) funding the Debt Service Reserve Fund created pursuant to the Indenture (the "Debt Service Reserve Fund"); (c) paying a portion of the interest due on the Bonds on February 1, 2002; (d) paying the costs of issuance of the Bonds; and (e) paying the premium on the bond insurance policy securing the Bonds. The Bonds are issued and secured separately from all other obligations issued by the Bond Bank.

The Program

The Bond Bank is a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set out in the Act. The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity and has no taxing power. Pursuant to the Act, the purpose of the Bond Bank is to assist political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commission, authority or authorized body of any qualified entity, as defined in the Act, and any organization with members that are all individual qualified entities through programs of purchasing the Bonds or evidences of indebtedness of such qualified entity or leases or certificates or other evidences of participation in lessor's interests in or rights under leases with such qualified entity, all of which are payable from taxes or from revenues, rates, charges or assessments or from the proceeds of funding or refunding bonds, bonds, evidences of indebtedness, leases, or certificates or other evidences of participation in leases with a qualified entity and which secure the bonds issued by the Bond Bank. A qualified entity can include, but is not limited to, such entities as all State universities, cities, towns, counties, school corporations, library corporations and not-for-profit corporations and associations which lease facilities to such entities.

The Bonds are payable solely out of and secured by a pledge of certain revenues as defined below and funds of the Bond Bank pledged for payment under the Indenture. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision of the State under the Constitution of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision. The sources of payment and security for the Bonds are further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in this Official Statement.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and all appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds will be issued under and secured by the Indenture. The principal of, and interest on, all of the Bonds are payable from those revenues and funds of the Bond Bank which, together with the Redevelopment District Bonds and the General Obligation Bonds (collectively, the "Qualified Obligations"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds without priority. The Bonds constitute moral obligations of the Bond Bank to the extent of the debt service reserve for the Bonds and the provisions of Indiana Code 5-1.5-5, pertaining to a moral obligation. Neither the faith, credit nor taxing power of the State or any political subdivision thereof, including the Redevelopment Commission and the Town (collectively, the "Qualified Entities"), is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt, liability, or loan of the credit of the State or any political subdivision thereof, including the Qualified Entities. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from all other obligations issued by the Bond Bank.

The Bonds are secured by the pledge of the Trust Estate established under the Indenture (the "Trust Estate"), which includes (a) all right, title and interest of the Bond Bank in, to and under the Qualified Obligations which will be purchased by the Bond Bank and delivered to the Trustee pursuant to a Purchase Agreement (the "Agreement"); (b) all right, title and interest in any and all other property, real, personal or mixed, from time to time conveyed, mortgaged, pledged, assigned or transferred as additional security under the Indenture by the Bond Bank or by anyone on behalf of the Bond Bank; (c) the proceeds from the sale of the Bonds; and (d) all revenues held in the Funds and Accounts (other than the Rebate Fund) under the Indenture. All Bonds will be secured equally and ratably by all of the foregoing.

The principal source of payment on the Bonds will be the principal and interest payments received by the Bond Bank from the Qualified Entities under the Qualified Obligations. The principal of and interest on the Qualified Obligations are payable: (1) with respect to the Redevelopment District Bonds: (a) until the amount on deposit in the Redevelopment Commission's Debt Service Reserve Account (as defined below) is equal to the Debt Service Reserve Account Requirement (as defined below): (i) from the Special Benefits Tax (as defined below); and (ii) to the extent the Special Benefits Tax is insufficient, then from the Debt Service Reserve Account; and (b) when the amount on deposit in the Debt Service Reserve Account is equal to the Debt Service Reserve Account Requirement: (i) from the Tax Increment (as defined below); (ii) to the extent the Tax Increment is insufficient, then from the Special Benefits Tax; and (iii) to the extent the Tax Increment and the Special Benefits Tax are insufficient, then from the Debt Service Reserve Account; and (2) with respect to the General Obligation Bonds: (a) from a property tax to be levied by the Town for the payment of the principal of and interest on such Bonds when due in accordance with the Town's full faith and credit pledge securing the Bonds; and (b) then from the Town's Debt Service Reserve Fund (as defined below). For further information, see the captions below entitled "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Qualified Obligations" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Provisions for Payment of the Qualified Obligations."

The Qualified Obligations

From the proceeds of the Bonds, the Qualified Obligations will be purchased by the Bond Bank and delivered to the Trustee, pursuant to the Agreement. The information set forth below has been supplied to the Bond Bank by the Qualified Entities.

<u>Redevelopment District Bonds</u>. The Redevelopment District Bonds consist of the Redevelopment District Bonds of 2001 issued by the Redevelopment Commission, in the name of the Town, in the aggregate principal amount of $6,420,000. The Redevelopment District Bonds are payable: (a) until the amount on deposit in the Redevelopment Commission's Debt Service Reserve Account is equal to the Debt Service Reserve Account Requirement: (i) from the Special Benefits Tax; and (ii) to the extent the Special Benefits Tax is insufficient, then from the Debt Service Reserve Account; and (b) when the amount on deposit in the Debt Service Reserve Account is equal to the Debt Service Reserve Account Requirement: (i) from the Tax Increment; (ii) to the extent the Tax Increment is insufficient, then from the Special Benefits Tax; and (iii) to the extent the Tax Increment and the Special Benefits Tax are insufficient, then from the Redevelopment Commission's Debt Service Reserve Account (the "Debt Service Reserve Account") created pursuant to the Second Amended and Restated Bond Resolution adopted by the Redevelopment Commission on May 30, 2001 (the "Redevelopment District Bond Resolution").

The “Tax Increment,” in any particular year, is generally equal to the aggregate of all property tax proceeds derived from: (i) that portion of the assessed valuation, as of March 1 of the then preceding year, of all the real property in, and the depreciable tangible personal property of Praxair, Inc. (“Praxair”), in, and any successor thereto on certain parcels in, an allocation area (the “Allocation Area”) established by the Redevelopment Commission in accordance with Indiana Code 36-7-14, in excess of: (ii) the assessed valuation of all the real property and the depreciable tangible personal property of Praxair in the Allocation Area as of March 1, 1999, plus, to the extent not included in such valuation, the assessed valuation of residential property in the Allocation Area as of March 1 of the then preceding year (collectively, the “Increment”). The Tax Increment is then reduced by an amount equal to the property tax replacement credit granted to each taxpayer in the Allocation Area attributable to the Increment, which generally will reduce the Tax Increment by an amount equal to approximately 13.14% of the Increment.

The Redevelopment District Bond Resolution requires the Redevelopment Commission to deposit the entirety of the Tax Increment into the Redevelopment Commission’s Debt Service Reserve Account until the amount on deposit therein is equal to the Debt Service Reserve Account Requirement. Until then, the Redevelopment Commission is obligated to take the steps necessary to levy in a timely manner a special benefits (the “Special Benefits Tax”) on all taxable property within the Burns Harbor Redevelopment District (the “Redevelopment District”) in an amount necessary, without limitation, to pay the debt service on the Redevelopment District Bonds when due. The boundaries of the Redevelopment District are the same as those of the Town. To the extent the Special Benefits Tax will be insufficient to pay the debt service on the Redevelopment District Bonds when due, the Redevelopment Commission is obligated to use any funds on deposit in its Debt Service Reserve Account to make such payments when due.

When the amount on deposit in the Redevelopment Commission’s Debt Service Reserve Account is equal to the Debt Service Reserve Account Requirement, the Redevelopment District Bonds are payable from the Tax Increment. To the extent the Tax Increment will be insufficient to pay the debt service on the Redevelopment District Bonds when due, the Redevelopment Commission is obligated to take the steps necessary to levy in a timely manner the Special Benefits Tax on all taxable property within the Redevelopment District in an amount necessary, without limitation, to pay such debt service when due.

In any event, to the extent the Tax Increment and the Special Benefits Tax will be insufficient to pay the debt service on the Redevelopment District Bonds when due, the Redevelopment Commission is obligated to use any funds on deposit in its Debt Service Reserve Account to make such payments when due. The amount required to be on deposit in the Debt Service Reserve Account is equal to 150% of the maximum annual principal and interest due on the Redevelopment District Bonds (the “Debt Service Reserve Account Requirement”). Deposits shall be made into the Debt Service Reserve Account from the Tax Increment whenever the amount on deposit therein is less than the Debt Service Reserve Account Requirement. The Redevelopment Commission has covenanted to accumulate an amount on deposit in the Debt Service Reserve Account equal to the Debt Service Reserve Account Requirement within seven years of the date of issuance of the Redevelopment District Bonds. The Tax Increment and the Debt Service Reserve Account will secure only the Redevelopment District Bonds and not any other debt of the Redevelopment Commission.

The proceeds of the Redevelopment District Bonds will be used: (i) to finance a portion of the cost of the Project; and (ii) to pay the costs of issuance of the Redevelopment District Bonds. The Redevelopment District Bonds are being issued and delivered pursuant to the Redevelopment District Bond Resolution. See Appendix B for a description of the Redevelopment District, the Tax Increment and the Allocation Area.

General Obligation Bonds. The General Obligation Bonds consist of the General Obligation Bonds of 2001 issued by the Town in the aggregate principal amount of $1,695,000. The General Obligation Bonds are payable: (i) from a property tax to be levied by the Town in an amount necessary, without limitation, to pay the principal of and interest on such Bonds when due in accordance with the Town’s full faith and credit pledge securing the Bonds; and (ii) then from the Town’s Debt Service Reserve Fund (the “Town’s Debt Service Reserve Fund”) created pursuant to the Amended and Restated Bond Ordinance adopted by the Town Council of the Town on April 11, 2001 (the “General Obligation Bond Ordinance”).

If, for whatever reason, the proceeds available pursuant to the exercise by the Town of its full faith and credit pledge are insufficient to pay the debt service when due on the General Obligation Bonds, the Town is obligated to use any funds on deposit in the Town’s Debt Service Reserve Fund to make such payments when due. The amount required to be on deposit in the Town's Debt Service Reserve Fund is equal to the least of: (i) maximum annual debt service on the General Obligation Bonds; (ii) 125% of average annual debt service on the General Obligation Bonds; or (iii) 10% of the proceeds of the General Obligation Bonds (the "Debt Service Reserve Fund Requirement"). Deposits shall be made into the Town's Debt Service Reserve Fund from any moneys legally available to the Town so that the amount on deposit therein is equal to the Debt Service Reserve Fund Requirement within five years of the date of issuance of the General Obligation Bonds.

The proceeds of the General Obligation Bonds will be used to: (i) refund the Bond Anticipation Notes of 2000 (the "General Obligation Notes") on or about July 2, 2001; (ii) to finance a portion of the cost of the Project; and to pay the costs of issuance of the General Obligation Bonds. The Town issued the General Obligation Notes on December 28, 2000, in the aggregate principal amount of $700,000 to finance a portion of the cost of the Project. The General Obligation Bonds are being issued and delivered pursuant to the General Obligation Bond Ordinance. See Appendix B for a description of the Town.

Provisions for Payment of the Qualified Obligations

Redevelopment District Bonds. Under the Redevelopment District Bond Resolution, the Redevelopment Commission, acting in the name of the Town, has pledged, as security for the payment of the debt service on the Redevelopment District Bonds when due, the Tax Increment, the Special Benefits Tax and the funds and accounts held under the Redevelopment District Bond Resolution, including the Debt Service Reserve Account.

Each year on July 1 or when the Town prepares its budget, the Redevelopment Commission shall determine the amount on deposit in its Debt Service Reserve Account. If the amount on deposit therein, together with the Tax Increment anticipated to be collected in the subsequent calendar year, is less than the Debt Service Reserve Account Requirement, the Commission shall levy the Special Benefits Tax on all taxable property in the Redevelopment District in an amount sufficient to produce the necessary funds with which to pay the debt service on the Redevelopment District Bonds when due.

If, on July 1or when the Town prepares its budget, the amount on deposit in the Redevelopment Commission's Debt Service Reserve Account, together with the Tax Increment anticipated to be collected in the subsequent calendar year, is at least equal to the Debt Service Reserve Account Requirement, the Redevelopment Commission shall estimate the amount of the Tax Increment expected to be collected in the subsequent calendar year. To the extent that the Tax Increment and funds on deposit in the Allocation Fund (the "Allocation Fund") (excluding the Debt Service Reserve Account) created pursuant to the Redevelopment District Bond Resolution are not available or are not expected to be available on the dates on which debt service on the Redevelopment District Bonds is due in the one year period ending on the January 15 immediately succeeding the end of the calendar year for which the budget is being prepared by the Town (the "Bond Year"), the Commission shall levy the Special Benefits Tax on all taxable property in the Redevelopment District in an amount sufficient, together with the Tax Increment on hand and not required for the Debt Service Reserve Account and the funds on deposit in the General Account of the Allocation Fund created pursuant to the Redevelopment District Bond Resolution which will be available on the dates on which such debt service is due, to produce the necessary funds with which to pay the debt service on the Redevelopment District Bonds when due.

Neither the Redevelopment District Bonds nor the obligation of the Redevelopment Commission to levy the Special Benefits Tax, when necessary, constitutes a debt of the Town or the State. The Redevelopment District Bonds do, however, constitute a debt of the Redevelopment District. Nevertheless, the total indebtedness of the Redevelopment District, including the Redevelopment District Bonds, does not exceed any constitutional or statutory limitation of indebtedness.

Interest on the Redevelopment District Bonds is payable on January 15 and July 15 of each year, commencing July 15, 2002. The Redevelopment District Bonds shall mature annually on January 15, commencing January 15, 2003 and ending January 15, 2016. See Appendix B for a description of the Redevelopment District and the Tax Increment. Included in Appendix B is a description of the largest taxpayers in the Redevelopment District.

General Obligation Bonds. Under the General Obligation Bond Ordinance, the Town has pledged its full faith and credit to the punctual payment of the principal of and the interest on the General Obligation Bonds. The Town covenants that it will cause a property tax for the payment of the principal of and interest on the General Obligation Bonds to be levied, collected, appropriated and applied for that purpose. The Town has also pledged the Town's Debt Service Reserve Fund for the payment of debt service on the General Obligation Bonds, if, for whatever reason, the proceeds available pursuant to the exercise by the Town of its full faith and credit pledge are insufficient to pay the debt service on the General Obligation Bonds when due.

The State Board of Tax Commissioners (the "State Board") is, prior to the end of each calendar year, required by the Indiana Code to review the proposed bond and lease rental ad valorem tax levies of each town, including the Town, for the next calendar year and the proposed appropriations from those levies to pay principal of and interest on each town's outstanding general obligation bonds, including the General Obligation Bonds, and to pay the town's outstanding lease rental obligations (collectively, the "bond and lease obligations") to be due and payable in the next calendar year. The State Board is to determine whether the proposed levies and appropriations are sufficient to pay the bond and lease obligations. If it determines that the proposed levies and appropriations are insufficient to pay the bond and lease obligations, the State Board is required to establish, for each town, bond and lease rental levies and appropriations which are sufficient for that purpose.

Neither the General Obligation Bonds nor the obligation of the Town to levy property taxes pursuant to its full faith and credit pledge, constitutes a debt of the State. The General Obligation Bonds do, however, constitute a debt of the Town. Nevertheless, the total indebtedness of the Town, including the General Obligation Bonds, does not exceed any constitutional or statutory limitation of indebtedness.

Interest on the General Obligation Bonds is payable on January 15 and July 15 of each year, commencing July 15, 2002. The General Obligation Bonds shall mature annually on January 15, commencing January 15, 2003 and ending January 15, 2016. See Appendix B for a summary of the financial information concerning the Town, including its revenues and costs of operations. Included in Appendix B is a description of the largest taxpayers and largest employers in the Town.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

1. All proceeds of the Bonds required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture or any supplemental indenture or resolution of the Bond Bank with respect to the proceeds of the Bonds, established under the Indenture as the Reserve Requirement in the amount of $922,388, which is equal to the maximum annual debt service on the Bonds.

2. All money required to be transferred to the Debt Service Reserve Fund from another Fund or Account under the Indenture;

3. All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

4. Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

The Debt Service Reserve Fund will be initially funded in the amount of $922,388. Balances in the Debt Service Reserve Fund will be invested, and used to make a portion of the annual principal and semiannual interest payments on the Bonds.

As permitted by the Act, the Indenture provides that, for purposes of computing amounts in the Debt Service Reserve Fund, investment securities, as defined and described herein (the "Investment Securities"), purchased as an investment of moneys in such Fund will be valued at their amortized cost. Moneys in the Debt Service Reserve Fund from time to time will be invested pursuant to an investment agreement and it is anticipated that such investment and the earnings thereon will be used to pay a portion of the principal of and interest on the Bonds. However, there can be no assurance that such moneys or the earnings thereon will be available, if and when needed, to pay debt service on the Bonds.

Except as provided in the Indenture, moneys in the Debt Service Reserve Fund will be held and applied to the payment of the principal of and interest on the Bonds in cases where sufficient funds are not available in other Funds and Accounts for such payments.

State Appropriations Mechanism

The Act provides that in order to assure the maintenance of the Reserve Requirement in the Debt Service Reserve Fund, the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year to the State General Assembly, as necessary to restore the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any Fiscal Year in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding, as of May 1, 2001, an aggregate principal amount of approximately $173,025,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of the principal of or interest on the Bonds.

Also under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

MUNICIPAL BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a Financial Guaranty Insurance Policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $4,568,000,000 (unaudited) and statutory capital of approximately $2,787,000,000 (unaudited) as of March 31, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of the McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Municipal Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files report, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W. Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE"), at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

(1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

(2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;

(3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001; and

(4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act afer the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

RISKS TO THE OWNERS OF THE BONDS

The ability of the Bond Bank to pay principal of, redemption premium, if any, and interest on the Bonds depends primarily upon the receipt by the Bond Bank of Qualified Obligation Payments from the Qualified Entities which are obligated to make such payments to the Bond Bank, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no Fund which is required to contain amounts to make up for any deficiencies in the event of one or more defaults by the Qualified Entities in making such Qualified Obligation Payments, and there is no source from which the General Fund will be replenished except the Qualified Obligation Payments and investment income on moneys in the Funds and Accounts. There can be no representation or assurance that the Qualified Entities will realize sufficient revenues or tax receipts to make its Qualified Obligation Payments. The realization of such revenues or tax receipts by the Qualified Entities is subject to, among other things, future economic and demographic conditions and other conditions which are variable and not certain of prediction and the effects thereof upon particular taxpayers located in the Allocation Area and the Town. The largest taxpayer in the Town and the Redevelopment District is Bethlehem Steel Corporation which currently constitutes approximately 86.19% of the net assessed value of taxable property in the Town and the Redevelopment District. Bethlehem Steel Corporation is appealing a portion of its assessments as further described in Appendix B. For a description of the Allocation Area and the Town, including the largest taxpayers in the Town, see Appendix B. For a description of procedures for providing for the payment of Qualified Obligations, see the captions above entitled "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Qualified Obligations" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Provisions for Payment of the Qualified Obligations."

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Appropriations Mechanism"). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Debt Service Reserve Fund" herein.

It is expected that the funds held under the Indenture (the "Investments Amounts") will be invested from time to time in an Investment Agreement entered into between the Trustee and an Investment Agreement Provider, currently rated in one of the two highest full rating categories by Standard & Poor's Ratings Services. It is anticipated that the Investment Amounts, together with the earnings thereon, pursuant to the terms of the Investment Agreement will be used to pay all or a portion of the principal of and interest on the Bonds. However, there can be no assurance that a financial institution will be able to return the Investment Amounts and the earnings thereon on a timely basis or at the rates contemplated under an investment agreement. In the event that a financial institution fails to return the Investment Amounts or the earnings thereon on a timely basis or at the rates contemplated under an investment agreement, the Investment Amounts and the earnings thereon may be unavailable to pay debt service on the Bonds. Similarly, there can be no assurance that, in the event of the insolvency, bankruptcy or similar deterioration in financial condition of a financial institution, the Investment Amounts and the earnings thereon will be available, if needed, to pay debt service on the Bonds.

The Bond Bank has covenanted under the Indenture to take all qualifying actions and not to fail to take any qualifying actions required to assure the continuing exclusion of interest on the Bonds from gross income for federal income tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Bonds to be taxable retroactive to the date of issuance. Also, in connection with the purchase of the Qualified Obligations, the Bond Bank will receive opinions of Ice Miller, with respect to each series of Qualified Obligations, to the effect that, conditioned upon continuing compliance by the applicable Qualified Entity with certain covenants made in connection with the issuance of such Qualified Obligations, the interest on the Qualified Obligations is excludable from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Qualified Obligations could become taxable in the event that the applicable Qualified Entity fails to comply with certain of such covenants, including, without limitation, the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Qualified Obligations from being deemed to be "private activity bonds" under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds and any applicable regulations promulgated thereunder (the "'Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the Bonds retroactive to the date of issuance. See "TAX MATTERS" herein.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon an event of default (an "Event of Default") under the Indenture or under the terms of any of the Qualified Obligations purchased by the Bond Bank are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "United States Bankruptcy Code"), the remedies provided in the Indenture and under the Qualified Obligations may not be readily available or may be limited.

THE BONDS

The Bonds will be issued in fully registered form and registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), in the denomination of $5,000 or any integral multiple of that amount, will be dated the date of delivery, and mature on February 1 in the years and amounts and bear interest at the rates set forth on the cover page of this Official Statement.

Principal of and interest on the Bonds, payable on February 1 and August 1, commencing February 1, 2002, will be paid by wire transfer of immediately available funds on the interest payment date to depositories shown as registered owners.

So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be paid directly to DTC by the Trustee. Interest will be paid on the basis of a 360-day year consisting of twelve 30-day months. Payment shall be made to the depository in whose name the Bond is registered on the fifteenth day preceding an interest payment date. (The final disbursement of such payments to the Beneficial Owners of the Bonds will be the responsibility of the DTC Participants and Indirect Participants, all as defined and more fully described below.)

Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive a written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Bond Bank or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bank Bank takes no responsibility for the accuracy thereof.

Revision of Book-Entry-Only System. In the event that either (1) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Bonds or (2) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Bonds, then the Bond Bank will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Bonds and to transfer the ownership of each of the Bonds to such person or persons, including any other clearing agency, as the holder of such Bonds may direct. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Bonds will be paid by the Bond Bank.

Optional Redemption

The Bonds due on and after February 1, 2010 may be redeemed prior to maturity, at the option of the Bond Bank, in whole or in part, in such order of maturity as determined by the Bond Bank, and by lot within maturities, on any date not earlier than February 1, 2009, at face value, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption Prior to Maturity

Term Bonds Due February 1, 2017

The Term Bonds which mature on February 1, 2017 are subject to mandatory sinking fund redemption on February 1 of the years and in the amounts listed below by lot in such manner as the Trustee may determine at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

Date	Amount	Date	Amount
2/1/14	$740,000	2/1/16	$825,000
2/1/15	780,000	2/1/17(1)	870,000

(1) Final maturity.

Notice of Redemption

Notice of the call for any redemption, identifying the Bonds (or any portions thereof in integral multiples of $5,000 each) to be redeemed, will be given by the Trustee, as registrar, at least 30 days but not more than 45 days prior to the date fixed for redemption, by mailing a copy of the redemption notice by registered or certified mail to the registered owner of each Bond to be redeemed at the address shown on the registration books and to the original purchasers of the Bonds. Failure to mail such notice to any particular owner of Bonds, or any defect in the notice mailed to any such owner of Bonds, will not affect the validity of the call for the redemption of any other Bonds. So long as DTC or its nominee is the registered owner of the Bonds, notice of the call for any redemption will be given to DTC, and not directly to Beneficial Owners. See "THE BONDS - Book-Entry-Only System".

Redemption Payments

Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Bonds called, together with accrued interest on the Bonds to the redemption date. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Bonds that have been called.

ESTIMATED SOURCES AND USES OF FUNDS

Summarized below are the total estimated sources and uses of funds, which will be available and required for purposes of the Bonds.

Sources of Funds

Principal amount of the Bonds	$9,500,000
Plus: net original issue premium	91,422
Net proceeds of the Bonds (TOTAL SOURCES OF FUNDS)	$9,591,422

Uses of Funds

Underwriter's discount	$ 94,973
Deposit to Bond Issuance Expense Account to pay other costs of issuance	160,000
Bond Insurance premium	50,504
Deposit to Debt Service Reserve Fund	922,388
Deposit to General Account to pay a portion of the interest due on February 1, 2002	248,558
Deposit to General Account for purchase of the Qualified Obligations	8,115,000
TOTAL USES OF FUNDS	$9,591,422

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity, a purchase, an acquisition or a sale of qualified obligations or other investments or the performance of its duties and execution of its powers under the Act;

2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;

3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to a modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purpose under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at $1,000,000,000. Such aggregate limit of $1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes, or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;

2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank or savings association, or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board of Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Clark H. Byrum, Vice-Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and Norcen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to present. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc. 1988 to present.

Joseph T. Morrow, Director; term expires July 1, 2003. Residence: Hammond, Indiana. Attorney; Chairman of the Board, Mercantile National Bank of Indiana, 1979 to present; Chairman of the Board, First National Bank of Illinois, 1979 to present; Chairman of the Board and General Counsel, Home State Bank of Crystal Lake, 1979 to present.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991-August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

June Midkiff was appointed Executive Director of the Indiana Bond Bank October 12,1999. Ms. Midkiff served as Director of Economic Development in the Office of Mayor Stephen Goldsmith for the City of Indianapolis for seven years. In that capacity she managed various development projects throughout the city. Prior to joining the Mayor's office, she was Vice President of Merchants National Bank & Trust Company, from 1973-1991, and was responsible for the management of governmental accounts and the cash management division.

Outstanding Indebtedness

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of May 1, 2001, an aggregate principal amount of approximately $1,375,626,793 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of $1,000,000,000. However, such aggregate limit does not apply to, inter alia, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5. The Bond Bank has previously issued and has outstanding as of May 1, 2001, an aggregate principal amount of approximately $173,025,000 in separate program obligations which count against the $1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financings for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such additional financings will be secured separately and independently from the Bonds and will not constitute Bonds.

REVENUES, FUNDS AND ACCOUNTS

Creation of Funds and Accounts

The Indenture establishes the following special trust funds and accounts to be held by the Trustee:

1. General Fund which contains a General Account, Bond Issuance Expense Account and a Redemption Account;

2. Debt Service Reserve Fund; and

3. Rebate Fund.

Deposit of Net Proceeds of the Bonds

The Trustee will deposit the net proceeds from the sale of the Bonds as follows:

1. To the General Account an amount equal to $248,558, which will be used to pay a portion of the interest on the Bonds due on February 1, 2002.

2. To the Bond Issuance Expense Account the amount needed to pay the costs of issuance of the Bonds (other than underwriter's discount). The bond insurance premium was paid to Ambac Assurance by the Underwriter for and on behalf of the Bond Bank.

3. To the Debt Service Reserve Fund, $922,388.

4. To the General Account, the amount needed to purchase the Qualified Obligations.

The Trustee will deposit the proceeds of any Additional Bonds as provided in a Supplemental Indenture authorizing the issuance of such Additional Bonds.

Deposit of Revenues and Other Receipts

The Trustee will deposit all Revenues into the Funds and Accounts as follows:

1. All payments of principal of and interest on Qualified Obligations paid by the Qualified Entities will be deposited in the General Account;

2. All income or gain from the investment of moneys (except moneys in the Rebate Fund), and all other Revenues will be deposited in the General Account; provided, however, that investment earnings on the Debt Service Reserve Fund will remain in the Debt Service Reserve Fund until the balance in such Fund equals the Reserve Requirement and from time to time and thereafter will be disbursed as provided in the Indenture; and

3. All income or gain from the investment of moneys in the Rebate Fund will remain in the Rebate Fund.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will make the following payments from the General Account on the specified dates and, in the event of insufficient funds to make all of such required payments, with the following order of priority:

(a) On the date of initial delivery of the Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer stating that all requirements with respect to such financing set forth in the Indenture have been or will be complied with, the amount necessary to purchase the Qualified Obligations;

(b) On or before 10:00 a.m. in the city in which the Trustee is located on the business day next preceding each Interest Payment Date, such amount as will be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met from time to time;

(d) As necessary, to the Bond Bank, amounts to pay Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before 30 days after each anniversary of the issuance of the Bonds, the amounts to be transferred to the Rebate Fund; and

(f) After making such deposits, the Trustee will retain such remaining amounts in the General Account to be used from time to time for the purposes set forth in paragraphs (b) through (e) above. Upon final maturity of the Bonds, any money remaining in the General Account which is not needed to pay any of the costs set forth in paragraph (b) through (e) above in connection with the final maturity of the Bonds will be transferred within thirty (30) days after such final maturity to the Qualified Entity. However, the Bond Bank must supply the Trustee with a Cash Flow Certificate to the effect that, after such transfer, Revenues expected to be received and money expected to be held in the Funds and Accounts will at least equal debt service on all Outstanding Bonds.

Redemption Account. The Trustee will deposit in the Redemption Account all money received from the sale or optional mandatory redemption prior to maturity of Qualified Obligations and all other money required to be deposited therein pursuant to the provisions of the Indenture, and will invest such funds pursuant to the Indenture and will disburse the funds in the Redemption Account as follows:

(a) On the fifteenth day of each month, to the General Account, an amount equal to the principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed.

(b) On the second business day prior to each Interest Payment Date, if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account, such amounts as are not already committed to the redemption of Bonds for which notice of redemption has already been given.

(c) After provision has been made for the required transfers to the General Account, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, or (ii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption and not in excess of the applicable redemption price for such Bonds. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase will be made by the Trustee within the prior of forty-five (45) days next preceding an interest payment date or a date on which such Bonds are subject to redemption under the provisions of the Indenture.

(d) In the event the Trustee is unable to purchase Bonds in accordance with subparagraph (c), then, subject to restrictions on redemption set forth in the Indenture (see "THE BONDS - Optional Redemption and --Mandatory Sinking Fund Redemption"), the Trustee will call for redemption on the next ensuing redemption date such amount of the Bonds of such maturity or maturities as directed by an Authorized Officer as, at the Redemption Price thereof, will exhaust the Redemption Account as nearly as may be possible. Such redemption will me made pursuant to the Indenture. The Trustee will pay the interest accrued on the Bonds so redeemed to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

Bond Issuance Expense Account. The Trustee will deposit in the Bond Issuance Expense Account the money required to be deposited by the Indenture, will invest such funds pursuant to the Indenture and will disburse the funds held in the Bond Issuance Expense Account upon receipt of acceptable invoices or requisitions to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. The Trustee will transfer any funds remaining in the Bond Issuance Expense Account to the General Account on December 1, 2001.

Debt Service Reserve Fund

The Trustee: will deposit in the Debt Service Reserve Fund all money required to be deposited therein pursuant to the Indenture, any moneys appropriated by the General Assembly of the State to the Debt Service Reserve Fund and any other moneys directed by the Bond Bank; will invest such funds pursuant to the Indenture; and will disburse the funds held in the Debt Service Reserve Fund to the General Account, if, on the second business day next preceding each Interest Payment Date, the moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date after taking into account available funds on deposit in the General Account.

The Trustee will disburse the funds held in the Debt Service Reserve Fund to pay the principal of and interest on the Bonds only in the event that moneys in the General Fund are insufficient to pay such amount due. The Trustee will draw first on cash or Investment Securities on deposit in the Debt Service Reserve Fund and then *pro rata,* as provided in the Supplemental Indentures or Debt Service Reserve Fund Credit Facility or Facilities.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in excess of the Reserve Requirement will be moved to the General Account or Redemption Account, as directed by the Bond Bank.

If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from any appropriations made by the General Assembly of the State or funds otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement.

If a deficiency in the Debt Service Reserve Fund is projected by Bond Bank in the next succeeding Fiscal Year, the Chairman of the Bond Bank will certify such projected deficiency or depletion to the General Assembly of the State on or before August 1 of the Fiscal Year in which the deficiency is projected to occur.

The Bond Bank will take all actions required or allowed by the Act to certify to the General Assembly of the State any deficiency in the Debt Service Reserve Fund, regardless of whether such deficiency was projected by the Bond Bank.

Rebate Fund

The Rebate Fund will be established to comply with the provisions of Section 148 of the Code concerning the rebate of certain arbitrage earnings to the United States of America. Deposits into the Rebate Fund and disbursements from the Rebate Fund will be made as provided by the Indenture and as required by federal tax law applicable to the Bonds. The Rebate Fund is not subject to the lien of the Indenture and does not constitute a Fund or Account for purposes of the Indenture.

So long as any of the Bonds are Outstanding and the Bond Bank is subject to a rebate obligation under the Code, the Bond Bank covenants to establish and maintain the Rebate Fund and to comply with the instructions relating to its ongoing rebate responsibilities delivered on the date of initial delivery of the of Bonds. Such instructions will set forth procedures which may be amended from time to time.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebate payments to the United States of America and the fees, charges and expenses of the Trustee and the Bond Bank will be distributed to the Qualified Entity.

Investment of Funds

Any money held as a part of any Fund or Account under the Indenture will be invested and reinvested at all times as continuously as reasonably possible by the Trustee in such Investment Securities as may be directed by the Bond Bank; provided, however, in the absence of such direction, the Trustee will select Investment Securities at its discretion. All such investments will at all times be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments will be deposited in the General Account, except for income and profits on investment of funds in the Rebate Fund which will remain in the Rebate Fund and except for investment earnings on the Debt Service Reserve Fund, which will remain in the Debt Service Reserve Fund until the balance in such fund equals the Reserve Requirement, and from time to time and thereafter will be disbursed as provided in the Indenture. Any investment income, gains or losses from an Investment Security will be charged to the Fund or Account from which money was employed to invest in such Investment Security, subject to any requirements in the Act with respect to earnings on money appropriated by the General Assembly of the State to the Debt Service Reserve Fund. The Trustee will not be liable for any investment losses. Moneys in any Funds or Accounts will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of the Investment Security) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash sufficient amounts of such Investment Securities in a respective Fund or Account as may be necessary to make up a deficiency in any amounts required to be distributed from such Fund or Account.

Obligations purchased as investments of moneys in any Funds or Accounts, except the Debt Service Reserve Fund, with a stated maturity of less than two years will be valued at cost, including accrued interest paid and unamortized debt discount. All other such obligations will be valued at the lower of cost, including accrued interest paid and unamortized debt discount, or market value, whichever is lower, exclusive of earned accrued interest. Investment Securities held in the Debt Service Reserve Fund will be valued at their amortized costs.

THE STATE OF INDIANA

A discussion of the State and its financial condition and procedures is set forth in APPENDIX A, "Financial and Economic Statement for the State of Indiana." **However, the faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.**

THE BONDS AS LEGAL INVESTMENTS

Under the Act, all financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the Bonds.

LITIGATION

Bond Bank

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation (1) restraining or enjoining the issuance, sale, execution or delivery of the Bonds, (2) prohibiting the Bond Bank from purchasing the Qualified Obligations with the proceeds of such Bonds, (3) in any way contesting or affecting the validity of the Bonds, or (4) restraining or enjoining any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Qualified Entities

Upon the issuance of the Bonds, the Bond Bank will receive a certification from each Qualified Entity to the effect that there is not now pending or, to the best knowledge of such Qualified Entity, threatened any litigation restraining or enjoining (i) the execution of the applicable Qualified Obligations and Agreement or (ii) any proceedings of the Qualified Entity taken with respect to such Qualified Obligations or the pledge or application of any moneys or security provided for the payment of the Qualified Obligations, or in any way contesting or affecting the validity of the Qualified Obligations or the Agreement.

TAX MATTERS

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds (the "Code"). The opinion of Barnes & Thornburg is based on certain certifications, covenants and representations of the Bond Bank and the Qualified Entities and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Bonds is exempt from income taxation in the State for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal tax purposes. Noncompliance with such requirements may cause interest on the Bonds to be included in gross income for federal tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. It is not an event of default if interest on the Bonds is not excludable from gross income for federal tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5, as amended, imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5, as amended), which, in general, includes all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code, minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Bonds is excluded from gross income for federal tax purposes and exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Except as expressly set forth above, Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the tax consequences of owning the Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of each of the Bonds maturing on February 1, 2008, February 1, 2010, February 1, 2012 and February 1, 2013 (collectively the "Discount Bonds"), is less than the principal amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or longer period from the date of the original issue) ending on February 1 and August 1, commencing February 1, 2002 (with straight line interpolation between compounding dates). A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that, under the applicable provisions governing the determination of state or local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering price of each of the Bonds maturing on February 1, 2004, February 1, 2005, February 1, 2007 and February 1, 2011 (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial public offering of the Bonds will be required to adjust the owner's basis in the Premium Bond downward as a result of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Premium Bonds, including sale, redemption or payment at maturity. The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found in Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their tax advisors concerning treatment of Bond Premium.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be delivered with the Bonds. Bond Counsel will render a further opinion that representatives of such firm have reviewed the information contained under the captions, "INTRODUCTION", "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS", "THE BONDS", "REVENUES, FUNDS AND ACCOUNTS", "TAX MATTERS", "ORIGINAL ISSUE DISCOUNT", "AMORTIZABLE BOND PREMIUM", and "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" of this Official Statement and determined that such information conforms in all material respects to the provisions of the documents and other matters set forth therein. Certain legal matters will be passed upon for the State by its disclosure counsel, Krieg, DeVault, Alexander & Capehart, LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Bond Bank by its counsel, Barnes & Thornburg, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriter by its counsel, Ice Miller, Indianapolis, Indiana.

Ice Miller, Indianapolis, Indiana, serves as bond counsel to the Qualified Entities in connection with the issuance and sale of their bonds to the Bond Bank and will be passing on certain legal matters in connection therewith.

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon an Event of Default under the Indenture, under the terms of any of the Qualified Obligations purchased by the Bond Bank and under the terms of the Agreements are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the United States Bankruptcy Code, the remedies provided in the Indenture and under the Qualified Obligations or the Agreements may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally (regardless of whether such enforceability is considered in a proceeding in equity or in law), by general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or at law) and by the valid exercise of the constitutional powers of the State and the United States of America. These exceptions would encompass any exercise of any of the police powers of the Qualified Entities in a manner consistent with the public health and welfare. Enforceability of the Indenture, the Qualified Obligations or the Agreements in situations where such enforcement may adversely affect public health and welfare may be subject to the police powers of the State or the Qualified Entities.

THE OFFICIAL STATEMENT; ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The information contained under the caption "INTRODUCTION" is qualified by reference to this entire Official Statement, including the Appendices hereto. This introduction is only a brief description and a full review should be made of this entire Official Statement, including the appendices hereto, as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument.

Information contained in this Official Statement with respect to the Bond Bank and the Qualified Entities and copies of the Indenture may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317)233-0888.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture. See "CONTINUING DISCLOSURE".

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned a rating of "AAA" to the Bonds, with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy, insuring the payment when due of the principal of and interest on the Bonds, will be issued by Ambac Assurance Corporation. That rating reflects only the views of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market prices or marketability of the Bonds. No other ratings have been applied for.

UNDERWRITING

Under a purchase contract entered into between the Underwriter listed on the cover page of this Official Statement and the Bond Bank, the Bonds are being purchased by the Underwriter for reoffering at an aggregate purchase price of $9,496,449. The purchase contract provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriter to accept delivery of the Bonds are subject to various conditions contained in the purchase contract.

The Underwriter has agreed to make an initial public offering of all of the Bonds at yields not less than the yields set forth on the cover page of this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering prices reflected on the cover page of this Official Statement, which may be changed after the initial offering by the Underwriter.

CONTINUING DISCLOSURE

General

Pursuant to the terms of the Indiana Bond Bank Continuing Disclosure Agreement, the Bond Bank, while the Bonds are outstanding under the Indenture, has agreed to provide: (i) the following information described in item 1 below to each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana State Information Depository then in existence, if any (the "State Depository"); and (ii) the following information described in item 3 below to each NRMSIR or the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any. Pursuant to the terms of the State of Indiana Continuing Disclosure Undertaking Agreement, the State, while the Bonds are outstanding under the Indenture, has agreed to provide: (i) the following information described in items 1 and 2 below to each NRMSIR and to the State Depository, if any; and (ii) the following information described in item 3 below, but only to the extent the State shall have actual knowledge of such event, to each NRMSIR or the MSRB, and to the State Depository, if any.

1. Audited Financial Statements. When and if available, the audited financial statements of the Bond Bank and the State for each fiscal year of the Bond Bank and the State beginning with the fiscal year ending June 30, 2001, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days of the close of the fiscal year of the Bond Bank or the State, beginning with the fiscal year ending June 30, 2001, the Annual Report (as hereinafter defined) will contain unaudited financial statements of the Bond Bank or the State, as the case may be, and the audited financial statements will be filed in the same manner as the Annual Report when they become available;

2. Financial Information in this Official Statement, Within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2001, annual financial information other than the audited or unaudited financial statements described above in item 1, including operating data of the type provided in APPENDIX A, "Financial and Economic Statement for the State of Indiana";

(The information described in items 1 and 2 is referred to as the "Annual Report".)

3. Material Events. Upon the occurrence of any of the following events, if material:

   1) principal and interest payment delinquencies;
   2) non-payment related defaults;
   3) unscheduled draws on debt service reserves reflecting financial difficulties;
   4) unscheduled draws on credit enhancements reflecting financial difficulties;
   5) substitution of credit or liquidity providers, or their failure to perform;
   6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
   7) modifications to rights of owners of the Bonds;
   8) bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described herein);
   9) defeasances;
   10) release, substitution or sale of property securing repayment of the Bonds; and
   11) rating changes.

The Town, while the Bonds are outstanding, has agreed to provide to the Bond Bank the preceding event notices with respect to it, the Redevelopment Commission and the Qualified Obligations if material, and in a timely manner, and the Town has agreed to provide the following information while any of the Qualified Obligations are outstanding.

• Audited Financial Statements. To each NRMSIR then in existence and to the State Depository, if any, when and if available, the audited financial statements of the Town as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts; and

• Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository, if any, within 210 days of each December 31, unaudited annual financial information for the Town for such calendar year including (i) unaudited financial statements of the Town and (ii) operating data of the type provided under the following headings in Appendix B to this Official Statement, entitled "Additional Information Pertaining to the Burns Harbor Redevelopment District and the Town of Burns Harbor, Indiana" (collectively, the "Annual Information"):

GENERAL ECONOMIC AND FINANCIAL INFORMATION
- Schedule of Bonded Indebtedness
- Notes to Bonded Indebtedness
- Debt Ratios
- Historical Schedule of Net Assessed Valuation
- Detail of Net Assessed Valuation
- Historical Detail of Corporate Tax Rates
- Property Taxes Assessed and Collected
- Large Taxpayers
- Unaudited Schedule of Receipts and Disbursements
- Unaudited Comparative Schedule of Receipts and Disbursements: General Fund

PENSION LIABILITIES

ALLOCATION AREA
- Estimated Tax Increment

The disclosure obligations of the State, the Bond Bank and the Town are referenced as the "Undertakings."

Remedy

The purpose of the Undertakings is to enable the Underwriter to purchase the Bonds in satisfaction of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"). The Undertakings are solely for the benefit of the holders and the Beneficial Owners of the Bonds. The sole remedy against the Bond Bank, the State or the Town for any failure to carry out any provision of the Undertakings shall be for specific performance of the Bond Bank's, the State's or the Town's disclosure obligations under the Undertakings. For the purposes of this section only, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding any Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bond for federal income tax purposes.

Failure on the part of the Bond Bank, the State or the Town to honor its Undertaking shall not constitute a breach or default under the Bonds, the Indenture, the Qualified Obligations, the General Obligation Bond Ordinance, the Redevelopment District Bond Resolution or any other agreement to which the Bond Bank, the State or the Town is a party.

Modification of Undertakings

The parties to the respective Undertakings may, from time to time, amend any provision of the Undertakings without the consent of the holders or Beneficial Owners of the Bonds if: (a) (i) such amendment (if related to certain provisions of the Undertakings) is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank, the State or the Town or the type of business conducted; (ii) the respective Undertaking, as so amended, would, have complied with the requirements of the Rule on the date of execution thereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) such amendment or modification does not materially impair the interests of the holders or Beneficial Owners of the Bonds, as determined by either (A) any person selected by the Bond Bank, the State, the Trustee or the Town, as applicable, that is unaffiliated with the Bond Bank, the State, the Trustee or the Town, as applicable, or (B) an approving vote by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders; or (b) such amendment is permitted by law or the SEC Rule, as then in effect.

Copies of the Undertakings are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State and the Town have never failed to comply, in all material respects, with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The Bond Bank's offices are located at 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204, telephone (317) 233-0888.

All quotations from, and summaries and explanations of, the Act, the Indenture, the Undertakings and the Agreements contained in this Official Statement do not purport to be complete and reference is made to each such document or instrument for full and complete statements of its provisions. The attached Appendices are an integral part of this Official Statement and must be read together with all of the foregoing statements. Copies in a reasonable quantity of the Act, the Indenture, the form of the Agreements, the Undertakings and the supplemental materials furnished to the Bond Bank by the Qualified Entities may be obtained upon request directed to the Bond Bank.

It is the Bond Bank's current policy to provide its financial statements to the holders of its obligations, including the Bonds, upon written request. In addition, certain other information concerning the Bond Bank is available to the Trustee and holders of the Bonds pursuant to the Indenture.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

INDIANA BOND BANK

By: /s/ Tim Berry
Chairperson Ex Officio
Treasurer of the State of Indiana

APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

APPENDIX A

FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA

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INTRODUCTION

This Financial and Economic Statement (the "Statement") for the State of Indiana (the "State") includes a discussion of the State's condition for the current Fiscal Year 2001, the results of operations for the past five years and revenue projections through the end of the biennium ending June 30, 2003. The information has been compiled on behalf of the State by the Indiana State Budget Agency and includes information and data taken from the Agency's unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled "Litigation" has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000 are Exhibit A-1 to this Appendix A.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly") may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies which are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Data Process Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The Speaker is selected by the members of the House of Representatives from among their ranks. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system which processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 2000, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000, attached hereto as Exhibit A-1. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Fund Structure

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported by the State Auditor as a Special Revenue Fund. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units which are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies which render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources which are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

Account Groups

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Budget Process

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

Revenue Projections. Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables which may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Technical Forecast Committee are individuals with expertise in public finance from within State and local government, business interest groups and State-supported higher education institutions.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

Appropriations

By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose which an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;

2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;

3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or

4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds may authorize a purpose which was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

Rainy Day Fund

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.

2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current

calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

The 2001 General Assembly enacted a number of special provisions designed to help balance the budget for the 2002-2003 biennium. Two such provisions involve possible transfers from the Rainy Day Fund to the General Fund. For a detailed explanation of these transfers and their impact on the 2002-2003 biennial budget, see "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Rainy Day Fund" and Table 3 for further discussion of Rainy Day Fund balances and transfers.

Cash Management and Investments

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

Interest bearing demand accounts are maintained in three Indianapolis banks to clear State warrants and to compensate for banking services rendered. Deposits are made directly by the State Treasurer or by State departments and agencies for credit to the State Treasury. Except for such demand accounts, all State funds are invested. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13.

Pursuant to State statute, the Treasurer may invest no more than 25% of the State's portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

Audits

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the Independent Auditor's Report therein.

STATE BUDGET PROFILE

Major General Fund and PTR Revenue Sources

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 2000, the $3,753.3 million in receipts from the adjusted gross income tax on individuals constituted approximately 40.8% of total State Operating Revenues (as hereinafter defined). State individual income tax rates were last increased effective for Calendar Year 1988.

Sales and Use Taxes. A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Of the receipts collected, 59.2% of the sales and use taxes are credited to the General Fund, 40.0% to the PTRF, 0.8% to the Public Mass Transportation Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 2000, the $3,651.4 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 39.7% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) which derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See "FISCAL POLICIES—Fund Structure—Governmental Funds."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 2000, corporate income and financial institutions tax receipts totaled $985.3 million and constituted approximately 10.7% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about $809.9 million or about 9% of total Operating Revenues in Fiscal Year 2000.

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues including certain revenues transferred from lottery and gaming accounts together with DSH revenues transferred to the General Fund. "DSH" revenues are extra Medicaid reimbursements provided to the State for hospitals which serve disproportionately large numbers of poor people. Total Operating Revenues are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Revenue Forecast

On December 19, 2000, the Economic Forecast Committee presented to the State Budget Committee projections of Gross Domestic Product (GDP) and income for the third quarter of 2000 through the second quarter of 2003. The Forecast Committee noted that demand in the United States economy slowed from the torrid pace of the last three years, to a growth rate of about 3.3%. The Forecast Committee believed Indiana Non-farm Personal Income (IPI) had slowed from a high of 7.4% for the second quarter of Calendar Year 2000 to a level of about 5.2% for the third and fourth quarters of Calendar Year 2000. The Forecast Committee expected real GDP growth to slip to about 1.8% by the second quarter of Calendar Year 2001. It is also projected that IPI would slow to about 3.5% during the first half of Calendar Year 2001. In December, the Forecast Committee did not expect the slowdown to lead to a recession. The Forecast Committee projected that by the Summer of 2001 rising natural gas prices would moderate, oil prices would remain below $30 per barrel, inflation would be stable and the Federal Reserve would have lowered interest rates. The Forecast Committee expected this would contribute to a rebound in the economy and real GDP growth would approach 4% early in 2002 before leveling off at about 3.6% which the Forecast Committee believes is the long term potential growth rate for the United States economy. IPI was also expected to rebound from an average of about 4.5% for Fiscal Year 2001 to about 5.5% for Fiscal Years 2002 and 2003.

Based on the December projections of the Economic Forecast Committee, the Technical Forecast Committee presented revised General-PTR Fund revenue projections for Fiscal Year 2001and new General-PTR Fund revenue projections for Fiscal Years 2002 and 2003. The projected slowdown in growth of the economy caused the Technical Committee to lower revenue projections for Fiscal Year 2001 by about $251.5 million. Because the Forecast Committee believed the economy would rebound for Fiscal years 2002 and 2003, the Technical Committee projected revenue growth for those years at 4.9% and 5.4% respectively. However, because of the $251.5 million decrease to the Fiscal Year 2001 base, the Budget Agency estimated total General Fund revenues for Fiscal Years 2001 – 2003 would be about $856.1 million less than total revenues would have been expected to be for the same period without the current economic slowdown.

On April 11, 2001 the Economic Forecast Committee and the Technical Forecast Committee updated the December, 2000 forecasts. The Economic Forecast Committee presented a GDP growth pattern that was similar to the one presented in December – a real GDP slowdown in the first half of 2001 followed by a recovery beginning in the second half of the year. However, the Committee reduced the December real GDP forecast by 1.1% for fiscal year 2001, by .5% for fiscal Year 2002 and by .2% for Fiscal Year 2003. This resulted in a real GDP forecast that projects 1st quarter 2001 GDP at about .5% with a modest recovery beginning in the second half of 2001and reaching real GDP growth of 3.5% by the middle of 2003. The Economic Forecast Committee also lowered projections for Indiana non-farm personal income by .4%, .4% and .1% for Fiscal Years 2001, 2002 and 2003 respectively.

In presenting this forecast, the Economic Forecast Committee expressed its belief that the worst of the current economic slowdown has already, or will soon, be past. In support of this position the Committee noted the following: several key economic series, including consumer sentiment and certain components of the National Association of Purchasing Managers Index, appear to have stabilized, the Federal Reserve has generally acted more quickly to lower short term interest rates and increase monetary growth than was expected in December, consumer spending has held up reasonably well and vehicle output is increasing after many months of decline.

As a result of the new forecast by the Economic Forecast Committee, the Technical Forecast Committee revised the December, 2000 General Fund-Property Tax Replacement Fund revenue forecast. The Committee reduced the forecast for Fiscal Year 2001 by an additional $205.6 million. When this reduction is combined with the December reduction of $251.5 million, the Budget Agency now estimates that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 will be about $1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2002-2003 biennium, see “FINANCIAL RESULTS OF OPERATIONS—Combined State Balances and Reserves.”

Table 1 shown below summarizes actual Operating Revenues for the Fiscal Years ended June 30, 1996 through June 30, 2000 (the "Discussion Period"), as well as the Budget Agency's projected Operating Revenues for the Fiscal Year ending June 30, 2001 through 2003. The revenues summarized herein are derived from the Budget Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables 5 and 6.

Table 1
State Operating Revenues
(millions of $)

	Actual					Projected (1)		
	FY 1996	FY19 97	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Individual Income Tax								
General Fund	$2,966.3	$3,196.5	$3,434.8	$3,699.3	$3,753.3	$3,843.1	$4,037.0	$4,290.0
Sales and Use Tax								
General Fund	1,751.2	1,921.8	1,933.8	2,023.0	2,167.1	2,199.4	2,315.5	2,423.1
Property Tax Replacement Fund	1,215.0	1,191.1	1,317.1	1,373.0	1,484.3	1,490.3	1,569.1	1,642.0
Subtotal[1]	$2,966.2	$3,112.9	$3,250.9	$3,396.0	$3,651.4	$3,689.7	$3,884.6	$4,065.1
Corporate Income Tax								
General Fund	$ 881.9	$ 899.2	$ 938.1	$972.3	$ 859.2	$807.4	$824.0	$845.6
Property Tax Replacement Fund	100.1	100.1	77.4	72.1	126.1	92.6	94.0	95.4
Subtotal[1]	$ 982.0	$ 999.3	$1,015.5	$1,044.4	$ 985.3	$900.0	$918.0	$941.0
Other – General[1]	655.9	736.2	780.7	801.0	809.9	726.1	705.9	690.8
TOTAL GF And PTRF	$7,570.4	$8,044.9	$8,481.9	$8,940.7	$9,199.9	$9,158.9	$9,545.5	$9,986.9

Note: Fiscal Year ended June 30

(1) Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been adjusted for Fiscal Years 2001 through 2003 for revenue reductions enacted by the 1999 and 2000 General Assembly. See "STATE BUDGET PROFILE—Revenue Reductions."

Source: State Budget Agency

Sales and use, and corporate and individual income taxes are the three primary sources of State Operating Revenues. In Fiscal Year 2000, combined revenues from those sources comprised about 91.2% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5, “Combined General and PTR Fund.”

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Revenue Growth

Annual percentage increases for each component of Operating Revenues are reflected in Table 2 shown below.

Table 2
Growth in State Operating Revenues
(by percentage)

Fiscal Year	Individual Income Tax Revenue	Sales and Use Tax Revenue	Corporate Income Tax Revenue	Other Revenue	Total Revenue
1996	7.2	5.6	3.3	-15.9	3.6
1997	6.4[(1)]	4.9	1.8	12.2	6.3
1998	7.5	4.4	1.6	8.9	5.7
1999	7.7	4.5	2.9	3.2	5.5
2000	1.5	7.5	(5.7)	1.2	2.9
Average FY96-FY00	6.1	5.4	.8	1.9	4.8
2001 projected	7.0[(2)]	1.3	-3.6[(2)]	-3.9[(2)]	2.7
2002 projected	6.1[(2)]	5.5	1.5[(2)]	-0.7[(2)]	4.9
2003 projected	7.5[(2)]	5.0	1.5[(2)]	0.0[(2)]	5.4

(1) The State received an additional estimated $41.8 million of individual income tax receipts in Fiscal Year 1997 which are not reflected above, but are reflected in Tables 1 and 5. These additional receipts resulted from refunds that would ordinarily have been made in Fiscal Year 1997 but which were actually made in Fiscal Year 1998.

(2) Represents projected growth rates after adjusting for a number of tax reductions enacted by the 1999 and 2000 General Assembly. See “STATE BUDGET PROFILE-Revenue Reductions” below.

Source: State Budget Agency

Revenue Reductions

State tax rates were not increased at any time during the Discussion Period. As a result of continuing strong growth in State revenues and record reserves and balances, the 1999 General Assembly enacted targeted tax cuts that have resulted in reductions in income taxes. In addition, in November, 1999, the General Assembly met for five days (which were counted as 2000 session days) and enacted a reduction in the State financial institutions tax. See “STATE BUDGET PROFILE—Corporate Income Taxes.” The tax cuts enacted by the 1999 and 2000 General Assemblies are projected to contribute to decreased total combined State balances and reserves. See "FINANCIAL RESULTS OF OPERATIONS--Combined State Balances and Reserves." A summary of the tax cuts and other actions of the 1999 General Assembly follows:

- An increase in the renter's deduction from $1,500 to $2,000 per year. It was estimated this would decrease individual income tax receipts by $10.9 million for Fiscal Year 2001.

- An increase in the exemption for school age dependents from $1,500 to $2,500 per year. It was estimated this would decrease individual income tax receipts by $58.6 million for Fiscal Year 2001.

- An increase in the deduction from $1,000 to $1,500 for persons age 65 and older who earn less than $40,000 annually. It was estimated this would decrease individual income tax receipts by $8.9 million for Fiscal Year 2001.

- A change to turn the State earned income tax deduction for families earning $12,000 or less enacted by the 1997 General Assembly into a refundable tax credit. It was projected this would effectively decrease net receipts by $3.4 million for Fiscal Year 2001.

- A change to allow an exemption for the first $12,500 assessed value in personal property, including inventory, from the property tax. When this law was passed by the 1999 General Assembly, it was estimated this change would decrease net property tax collections for local government by $41.2 and $84.2 million for Fiscal Years 2000 and 2001 respectively. Since the State replaces the revenue lost to local government, the impact to the State is an increase in State Property Tax Replacement Fund expenditures. By February, 2000, it became apparent that this exemption would decrease net property tax collections for local government, and increase State Property Tax Replacement Fund expenditures, by significantly more than the original estimate. For Fiscal Year 2000 the actual cost to the State of this exemption was $91.9 million, $50.7 million more than first estimated in 1999. It is now estimated this credit will decrease net tax collections to local government, and increase State expenditures, by an additional $107.0 million for Fiscal Year 2001. So, it is currently estimated this exemption will increase State Property Tax Replacement Fund spending by a total of $191.2 million for Fiscal Year 2001.

- A change to allow businesses and farmers to deduct 100% of property tax payments from State taxable income and allow homeowners to deduct up to $2,500 in property taxes from State taxable income. It was estimated these changes would decrease net collections by $146.5 million for Fiscal Year 2001.

The 1999 General Assembly also shifted certain welfare costs from counties to the State. It was estimated this change would increase State distributions $46.4 million for Fiscal Year 2001.

A summary of the actions of the 2000 General Assembly, which occurred in November 1999, follows:

- A reduction in the State financial institutions tax. It was projected this would effectively decrease net receipts by $5.0 million for Fiscal Year 2001.

- This General Assembly also extended a research and development tax credit that was set to expire in 1999. As a result, the tax credit did not expire and corporate tax collections will not increase by an estimated $3.1 million for Fiscal Year 2001.

Lottery and Gaming Revenues

Gaming Revenues are dedicated funds and are not included in State Operating Revenues. However, Gaming Revenues represent a significant source of discretionary funding for the State. On January 22, 2001, the State Budget Agency estimated Gaming Revenues for the 2002-2003 biennium. The estimate reflected the State would have an unobligated balance of Gaming Revenues totaling about $349 million on June 30, 2001. In addition, new Gaming Revenues available to the State for the 2002-2003 biennium are estimated to total $463 million per year.

By statute, certain revenues from the Hoosier Lottery (after pension account transfers) and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Lottery and Gaming Surplus Account (the "Surplus Account") of the Build Indiana Fund, which was established by the General Assembly in 1989 when the Hoosier Lottery was authorized and began operations.

From Fiscal Year 1990 through June 30, 2000, $2,628.0 million of Gaming Revenues have been transferred to the State. In Fiscal Year 2000, Gaming Revenues totaling $383.9 million were deposited in the Surplus Account from the following sources:

Hoosier Lottery	$113.2 million(1)
Riverboat gaming	246.1 million
Horse racing	2.4 million
Charity gaming	4.0 million
Interest earnings	18.1 million

(1) The 1999 General Assembly increased the annual transfer of Hoosier Lottery revenues for pension funding from $40.0 million to $60.0 million beginning with Fiscal Year 2000. The $113.2 million does not include the $60.0 million — $30.0 million to the State Teachers' Retirement Fund and $30.0 million to the Local Police and Fire Pension Relief Fund — transferred to the pension funds before remaining Hoosier Lottery revenues were transferred to the Surplus Account. Therefore, total lottery revenues for Fiscal Year 2000 were $173.2 million. See "STATE RETIREMENT SYSTEMS."

Source: State Budget Agency.

All Gaming Revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority is to the State's counties for motor vehicle excise tax replacement providing for a substantial cut in the excise tax charged on motor vehicles — estimated at $235 million for Fiscal Year 2001, the second year of the current biennium and each year thereafter. After payment of the motor vehicle excise tax replacement, funds remaining in the Surplus Account are transferred to the State and Local Projects Account where second priority distributions are made to the Indiana Technology Fund — $52.6 million for the 2002–2003 biennium. This appropriation includes $48.6 million to help schools and libraries expand their technological capabilities and $4 million for the Intelenet Commission for continued development of the State computer "backbone."

All remaining gaming funds are subject to discretionary appropriation by the General Assembly. Although it has been State policy to not use gaming revenues to fund operating expenses of the State, the 2001 General Assembly made a decision to use excess Gaming revenues on a temporary basis to help offset General Fund revenue decreases resulting from the current economic slowdown. The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer $200 million in Fiscal Year 2002 and $175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF) to help balance the State budget. Because there were significant balances in the Build Indiana Fund, the General Assembly was able to appropriate funds for additional priorities as well. In addition to the transfers to the PTRF, the 2002-2003 biennial budget includes $78 million for the biennium for local capital projects, $29 million each year for higher education technology, $25 million each year for the 21st Century Research and Technology Fund, $15 million each year for community wastewater and drinking water grants and loans, and $9 million for the biennium for local election and voter registration equipment.

The Budget Agency has estimated that after funding existing commitments for pension funds and motor vehicle excise tax replacement, after making the transfers to the Property Tax Replacement Fund and making deductions for the above spending priorities, there will be a balance in the Build Indiana Fund - State and Local Projects Account of about $9 million on June 30, 2003. (See, "FINANCIAL RESULTS OF OPERATIONS — 2002-2003 Biennial Budget").

The State's 2002-2003 Biennial Budget

The Budget Agency estimates the current economic downturn will cause General Fund-PTRF revenues for Fiscal Years 2001 – 2003 to be about $1,630 million less than what total revenues would have been expected to be for the same period without the economic slowdown. (See, "STATE BUDGET PROFILE — Revenue Forecast") This expected reduction in Operating Revenues for the 2002-2003 biennium presented the Governor and the General Assembly with a difficult challenge in preparing the biennial State budget. To address this revenue shortfall, the General Assembly adopted a financial plan that relies on the three following actions:

- Transfers to the General Fund-Property Tax Replacement Fund from Gaming Revenues and the Rainy Day Fund.

  The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer $200 million in Fiscal Year 2002 and $175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF). This increases the amount available to spend from the General Fund-PTRF by $375 million for the biennium. (See, "STATE BUDGET PROFILE — Lottery and Gaming Revenues")

  The State's 2002-2003 biennial budget also provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001- an amount currently estimated to be about $535 million. The Budget Agency estimates this provision will result in a transfer of $26.7 million from the Rainy Day Fund to the General Fund in each year of the biennium.

  Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers will be needed during the 2002-2003 biennium to balance the General Fund—PTRF budget period. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast period. (See, "FISCAL POLICIES — Rainy Day Fund" and "FINANCIAL RESULTS OF OPERATIONS — Fund Balances, Rainy Day Fund")

- Possible delays in payments for local school aid, higher education and property tax relief. Although the General Assembly appropriated a full years funding for each year of the biennium for local school aid, higher education and property tax relief, the budget passed by the General Assembly effectively permits the Budget Agency to delay until Fiscal Year 2003 one regular payment for each purpose that would otherwise have been made in Fiscal Year 2002. This could have the effect of moving as much as a total of $573.9 million in appropriations for the 2002-2003 biennium into the 2004-2005 biennium. It is not clear at this time how much, if any, of these payments will actually be delayed. The Governor and the Budget Agency will make decisions about payment delays based largely on State revenue collections over the remaining months of Fiscal Year 2001 and Fiscal Year 2002.

- Modest spending reductions in general governmental operations. The final spending plan agreed to by the Governor and the General Assembly for the 2002-2003 biennium increased the requirement for General Fund-PTRF reversions – funds appropriated but left unspent at the end of a Fiscal Year - by $25 million for each year. These "mandatory reversions" are expected to cause total General Fund-PTRF spending for the operation of government to be $25 million less than otherwise would have been expected for each year of the biennium. It is expected that under the direction of the Governor, the Budget Agency will selectively reduce budget allotments to create the mandatory reversions. (See, "FISCAL POLICIES — Accounting System")

The actions outlined above permitted passage of a budget that included funding increases for essential governmental services and made strategic economic investments for the 2002-2003 biennium. Those appropriation increases can be described in three broad categories:

- those reflecting the State's commitment to invest in primary, secondary and higher education.
- a continuing commitment to support the development and use of new technology and promote economic development.
- public safety, including increased spending to open and operate two new correctional facilities.
- those aimed at improving the care of developmentally and mentally challenged adults and children.

For Fiscal Year 2002, the first year of the new biennium, estimated spending for the five largest functional categories total $8,595.0 million, or about 84.1% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency's biennial List of Appropriations and unaudited working statements. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund."

Local School Aid. The State's largest operating expense payable from both the General Fund and PTRF is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid.

As a result of lower than expected local property tax collections and higher than expected school enrollments, distributions to local schools under the school formula are expected to exceed the appropriation for Fiscal Year 2001 by about $53.6 million. To address this appropriation shortfall, the 2001 General Assembly passed a deficiency appropriation of $53.6 million for Fiscal Year 2001 and the Budget Agency has adjusted estimated State expenditures in Fiscal Year 2001 to reflect the increased expenditure.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for calendar years 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for Fiscal Year 2002 from the General Fund—PTRF total $4,241.1 million and constituted 41.5% of the combined General Fund—PTRF budget.

The 2002—2003 biennial budget also included funding for several new or expanded initiatives. The budget included $20 million for professional teacher development in Fiscal Year 2003, $10 million per year to implement full day kindergarten, $2.5 million per year for reading diagnostic assessment and funding to move the kindergarten enrollment date from June 1 to July 1.

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. See "Fee Replacement Appropriations to State Universities and Colleges" below. General Fund appropriations for higher education for Fiscal Year 2002 total $1,409.8 million and constitute about 13.8% of the estimated combined General and PTR Fund spending level. This represents an increase for Higher Education of about $62.1 million, or 4.6%, over estimated Fiscal Year 2002 spending.

Appropriations for the 2002-2003 biennium include $3.25 million per year for additional community college start-ups, $6 million to freeze fees at Vincennes University and Indiana Vocational Tech College in support of the community college program and $4.8 million for a new School of Informatics at Indiana University.

<u>Fee Replacement Appropriations to State Universities and Colleges</u>

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The (a) estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 2000, which is eligible for Fee Replacement Appropriations, and (b) amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 2001 is shown below.

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	Estimated Amount of Debt Outstanding	Fiscal Year 2002 Fee Replacement Appropriation
Ball State University	$ 67,135,000	$ 9,460,987
Indiana University [(1)]	426,142,045	52,323,279
Indiana State University	56,785,000	7,159,560
Indiana Vocational Tech College	74,126,330	10,044,038
Purdue University[(2)]	197,467,294	33,643,833
University of Southern Indiana	34,458,101	3,989,274
Vincennes University	16,176,421	2,070,468
Total	$872,290,191	$118,691,439

(1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.
(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

Property Tax Relief. The third largest operating expenditure, payable solely from the PTRF, is for property tax relief. The budget for the 2002-2003 biennium extended the Homestead Credit at 10% until December 31, 2003. The 10% level was set to expire and return to 4% on December 31, 2001. Spending for property tax relief, including the Homestead Credit and additional credits enacted by the 1999 General Assembly is expected to total $1,206.7 million for Fiscal Year 2002, about 11.7% of the combined General Fund-PTRF spending level. See “STATE BUDGET PROFILE—Revenue Reductions.”

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund is the State's share of Medicaid assistance. On April 11, 2001, the Department of Family and Social Services updated its December, 2000 Medicaid forecast. Based on the April forecast, Medicaid expenditures for Fiscal Year 2001 are expected to total $1,091.8 million. This represents an increase over actual expenditures for Fiscal Year 2000 of $122.3 million, an increase of about 12.6%. This total exceeds the appropriation for Fiscal Year 2001 by about $73.9 million. Spending estimates for Medicaid on the State's Combined General-PTR Fund statement have been increased by $72.9 million for Fiscal Year 2001. The State has a Medicaid Reserve Account which on June 30, 2000 had a balance of $203.8 million. It is expected the Medicaid Reserve will be used to cover the estimated $73.9 million appropriation shortfall for Fiscal Year 2001. See, “FINANCIAL RESULTS OF OPERATIONS—Medicaid Reserve.”

The Budget Agency adjusted the Medicaid forecast to reflect actual cash outlays for each year. After adjustment, estimated expenditures total $1,178.5 million for Fiscal Year 2002 and $1,273.9 million for Fiscal Year 2003. This represents a first year increase of $86.7 million or about 7.9%. This comparatively large increase is partly due to the State’s aggressive effort to enroll children in the Children’s Health Insurance Program (CHIP). However, the forecast also reflected relatively large increases for reimbursements to hospitals and pharmacy drugs. As a result, the spending plan adopted by the General Assembly for 2002-2003 includes an aggressive package of cost containment initiatives aimed at reducing the growth in State spending for Medicaid. The most significant initiatives include:

- A requirement for the provision of a program for managed care in certain counties by January 1, 2003

- Implementation of a pharmaceutical benefit management program (PBM) for the Medicaid prescription drug program by September 1, 2001

- Implementation of a disease management program for Medicaid recipients with certain high cost diseases by July 1, 2002

- In cooperation with State Attorney General’s office, conduct an audit of the State Medicaid prescription drug program to identify incorrect billing procedures or fraud

- Reduce reimbursements to hospitals and nursing homes by about 5%
- Eliminate Medicare crossover claims
- Reduce the pharmacy dispensing fee from $4.00 to $3.00 per filled prescription
- Extend the use of generic drugs permitted under the Medicaid program to CHIP
- Reduce reimbursement rates for over the counter drugs by 10%

This comprehensive package of cost containment initiatives was expected to result in decreased expenditures of up to $81 million for Fiscal Year 2002 and $120 million for Fiscal Year 2003. However, it is not certain that all of these initiatives will be fully implemented as early as contemplated by the General Assembly. Therefore, actual savings may not be as great as the initial estimates.

The budget also included funding for increased base spending on Medicaid. The budget plan specifically authorized increased spending for the following:

- Targeted physician fee increases
- An increase in the number of Medicaid waiver slots
- An increase in Medicaid waiver reimbursement rates
- An increase for placements in group homes

Increased spending for these items is expected to cost up to $14.7 million for Fiscal Year 2002 and $30.5 million for Fiscal Year 2003.

After considering savings estimated to result from the cost containment initiatives and increased base spending authorized under the new budget, the General assembly set appropriations for the State share of Medicaid at $1,171.5 million for Fiscal Year 2002 and $1,249.5 million for Fiscal Year 2003. This represents approximately 11.5% of combined General-PTR Fund appropriations for Fiscal Year 2002. The General Assembly placed the Medicaid Reserve for the biennium at $100 million. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "Medicaid Reserve."

Department of Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. See "STATE INDEBTEDNESS—Authorized but Unissued Debt." Phase I of the Miami Correctional Facility was completed in July, 1999. The Pendleton Juvenile Facility opened in July, 2000. Phase II of the Miami Correctional Facility and The New Castle Correctional Facility are both expected to be open and start receiving inmates in the Fall of 2001. The opening of these two new facilities will cause spending for corrections to grow in the 2002-2003 biennium. Appropriations for the Department of Correction for Fiscal Year 2002 total $565.9 million, an increase over actual estimated Fiscal Year 2000 spending of about $36.5 million or 6.9%. Department of Correction accounts for about 5.5% of total General Fund-PTRF appropriations for Fiscal Year 2002.

Other. The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2000 other combined General Fund-PTRF appropriations total $1,625.0 million. This constitutes approximately 15.9% of the estimated combined General and PTR Fund spending level for all purposes.

Transfers. In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund and for the 2002-2003 biennium, (c) from the Build Indiana Fund to the General Fund. See “FISCAL POLICIES—Rainy Day Fund,” “FINANCIAL RESULTS OF OPERATIONS,” including “Table 5, Combined General and PTR Fund" and “STATE BUDGET PROFILE—Lottery and Gaming Revenues.”

FINANCIAL RESULTS OF OPERATIONS

Fiscal Management

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding education and other essential governmental functions, wisely managing debt issuance and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Combined General and PTR Fund and the Medicaid Reserve Account. The Medicaid Reserve Account will be included as a part of the State’s combined balances and reserves on July 1, 2001. Each of these funds is described below.

Rainy Day Fund. One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," access to and balances in the Rainy Day Fund are determined by statutory formula, subject to future General Assembly action. The Rainy Day Fund has been funded at the maximum permitted by law in each of the last four Fiscal Years. The Rainy Day Fund is currently funded at the maximum allowable balance, $539.9 million. The Budget Agency had projected that the balance would increase to about $567.4 million, $2.8 million less than the estimated maximum allowable balance, by June 30, 2001. However, because of reduced revenue collections for Fiscal Year 2001, it is now estimated the new maximum allowable balance on June 30, 2001 will be just $534.3 million. (See, STATE BUDGET PROFILE — Revenue Forecast”) This is expected to lead to a transfer from the Rainy Day Fund to the General Fund of $33.1 million on June 30, 2001.

In addition, the State’s 2002-2003 biennial budget provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund during Fiscal Year 2002 and 2003. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001- an amount currently estimated to be about $534.3 million. The Budget Agency estimates this provision will result in a transfer of $26.7 million from the Rainy Day Fund to the General Fund in each year of the biennium. These transfers will result in balances in the Rainy Day Fund on June 30, 2002 and 2003 that are $20.7 million and $46.3 million less than the maximum balance allowed for each respective year.

Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers will be needed during the 2002-2003 biennium to balance the General Fund-PTRF budget. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast.

The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table 3.

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Table 3
Rainy Day Fund
Schedule of Cash Flow
(millions of $)

	. . . . Actual				. . . .	Projected		
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001[1]	FY 2002	FY 2003
Beginning Cash Balance	$ 419.3	$ 439.5	$ 466.1	$ 496.1	$ 524.7	$ 539.9	$534.3	$534.3
Interest Earned[2]	18.8	25.7	27.2	27.5	29.8	27.0	26.7	26.7
Loans Made from Fund[3]	-	-	-	-	-	-	-	-
Principal Payments and Sale Proceeds[4]	0.9	0.7	0.5	0.5	0.5	0.5	-	-
Net Transfers by Law 5)	0.6	0.2	2.4	0.6	(15.1)	(33.1)	(6.0)	-
Trf to Maintain Balance	N/A	N/A	N/A	N/A	N/A	N/A	(20.7)	(20.7)
Ending Cash Balance	$ 439.5	$ 466.1	$ 496.1	$ 524.7	$ 539.9	$ 534.3	$534.3	$534.3
Maximum Allowable Fund Balance	$ 439.5	$ 466.1	$ 496.1	$ 524.7	$ 541.1	$ 534.3	$551.1	$580.7
Loans Outstanding[6][7]	$ 2.8	$ 2.1	$ 1.4	$ .8	0.5	-	-	-

Notes: Totals may not add as a result of rounding.
Fiscal Years ended June 30

(1) Revenues upon which transfers are projected are those projected by the Technical Forecast Committee on April 11, 2001; expenditures are those authorized by the 2001 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly. See "STATE BUDGET PROFILE–Revenue Growth."

(2) Interest assumed at 5.0% for Fiscal Years 2001-2003; includes interest payments received on loans made.

(3) Reserved to reflect loans made out of the Rainy Day Fund during the Fiscal Year indicated. No loans were made during the Discussion Period, and no projections of loans are made for Fiscal Years 2001-2003.

(4) Payments of principal received on loans made plus proceeds of the sale of a loan made to the City of Indianapolis, as more fully described in note 7.

(5) Net Transfers reflect: (a) in Fiscal Year 1996, a $106.7 million transfer from the General Fund and a $106.1 million transfer to the PTRF; (b) in Fiscal Year 1997, a $19.8 million transfer from the General Fund and a $19.6 million transfer to the PTRF; (c) in Fiscal Year 1998, a $21.1 million transfer from the General Fund and $18.7 million transfer to the PTRF; (d) in Fiscal Year 1999, a $140.9 million transfer from the General Fund and a $140.3 million transfer to the PTRF; (e) in Fiscal Year 2000, a $162.1 million transfer to the PTRF; and a $147.0 million transfer from the General Fund; (f) in Fiscal Year 2001, a $192.2 million transfer to the PTRF; and a $159.1 million transfer from the General Fund; (g) in Fiscal Year 2002, a $6.0 million transfer to the PTRF; and no transfer from the General Fund; and, (h) in Fiscal Year 2003, there are no projected transfers.

(6) The amount of loans outstanding is not reflected in the ending cash balance statements.

(7) From time to time, the General Assembly has authorized the State Board of Finance to lend moneys in the Rainy Day Fund to specified local governments for specified purposes. There are currently no loans outstanding. No further loans may be made without authorization by the General Assembly.

Source: State Budget Agency.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at $120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve in each of Fiscal Years 1989 through 2000. The Tuition Reserve is set at $265.0 million for Fiscal Year 2001. The Budget Agency will establish the Tuition Reserve for Fiscal Year 2002 on or about June 1, 2001. It is currently expected that the Budget Agency will maintain the Reserve for both Fiscal Years 2002 and 2003 at $265 million.

Table 4
Tuition Reserve
(millions of $)

Actual						Projected	
FY 1996	FY 1997	FY 1998	FY1999	FY 2000	FY 2001	FY 2002	FY 2003
$ 215.0	$ 240.0	$ 240.0	$ 255.0	$ 265.0	$ 265.0	$265.0	$265.0

Note: For Fiscal Year ended June 30

Source: State Budget Agency

Combined General and PTR Fund. The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 1999, $581.8 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix A as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 2001, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

Table 5
Combined General and PTR Fund
(millions of $)

	Actual.					Projected		
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001[1]	FY 2002[1]	FY 2003[1]
Revenues[2]								
Sales and Use Taxes	$ 2,942.3	$3,112.9	$3,250.9	$3,396.0	$3,651.4	$ 3,689.7	$3,884.6	$4,065.1
Adjusted Gross Income Tax Individuals	2,966.3	3,196.5	3,434.8	3,699.3	3,753.3	3,843.1	4,037.0	$4,290.0
Corporate Income Taxes	982.0	999.3	1,015.5	1,044.4	985.3	900.0	918.0	941.0
Other Taxes	299.1	321.7	340.8	373.9	370.3	376.1	380.9	375.8
Total Taxes	7,189.7	7,630.4	8,042.0	8,483.6	8,760.3	8,808.9	9,220.5	9,671.9
Interest Income	141.1	146.5	178.8	169.0	188.9	140.0	130.0	120.0
Other Revenue[3]	239.6	268.0	261.1	288.1	250.7	247.5	242.4	240.7
Transfer from Gaming	-	-	-	-	-	-	200.0	175.0
Total Revenue	7,570.4	8,044.9	8,481.9	8,940.7	9,199.9	9,320.2	9,792.9	10,207.6
Appropriations and Expenditures								
Local School Aid	2,961.1	3,092.2	3,423.1	3,691.8	3,894.0	4,245.4	4,241.8	4,416.2
Higher Education	1,104.2	1,101.8	1,180.5	1,248.0	1,331.5	1,389.7	1,409.8	1,439.1
PTRF Credits	784.3	822.1	873.3	946.7	1,078.6	1,176.6	1,206.7	1,184.6
Medicaid	860.9	931.3	913.3	948.5	986.1	1,091.8	1,171.5	1,249.5
All Other [4]	1,513.8	1,958.9	1,908.2	2,198.3	2,293.3	2,297.6	2,190.9	2,216.7
Subtotal Appropriations and Expenditures	7,224.3	7,906.3	8,298.4	9,033.3	9,583.5	10,218.7	10,220.0	10,506.1
Less:								
Reversions	-	-	-	-	-	72.5	25.0	25.0
Mandatory Reversions[5]	-	-	-	-	-	-	25.0	25.0
Total Reversions	-	-	-	-	-	72.5	50.0	50.0
Payment Delays: [6]								
Tuition Support	-	-	-	-	-	-	162.7	116.1
Higher Education	-	-	-	-	-	-	52.5	37.5
PTR Credits	-	-	-	-	-	-	95.5	68.2
Total Payment Delays	-	-	-	-	-	-	310.7	221.8
Total Expenditures	7,224.3	7,906.3	8,298.4	9,033.3	9,583.5	10,146.2	9,859.3	10,234.3
Excess (Deficiency) of Revenues Over Expenditures	346.1	138.6	183.5	(92.6)	(383.6)	(826.0)	(66.4)	(26.7)
Less: Transfers to (from) Rainy Day Fund	0.6	0.2	2.4	.6	(15.1)	(33.1)	(26.7)	(26.7)
Total Transfers	0.6	0.2	2.4	.6	(15.1)	(0.0)	(26.7)	(26.7)
Increase (Decrease) in Fund Balance	360.5	138.4	181.1	(93.2)	(368.5)	(792.9)	(39.7)	-
Beginning Balance [7]	879.3	1,239.8	1,378.2	1,559.3	1,466.1	1,097.6	304.7	265.0
Ending Balance [7]	1,239.8	1,378.2	1,559.3	1,466.1	1,097.6	304.7	265.0	265.0

(1) Revenues are those projected by the Revenue and Technical Forecast Committee on April 11, 2001; expenditures are those authorized by the 2001 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly. See “STATE BUDGET PROFILE—Revenue Growth.”

(2) Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been reduced to reflect revenue reductions enacted by the 1999 and 2000 General Assemblies. See "STATE BUDGET PROFILE—Revenue Reductions."

(3) Also includes refunds of prior year expenditures, reimbursements of prior year expenditures, return of escrows to the General Fund and prior year revenue transferred to the General Fund in Fiscal Year 1996.

[4] Includes $72.2 million adjustment to surplus for Fiscal Year 1999 for prior year expenditures and a $88.3 million appropriation transfer from Fiscal Year 2001 to Fiscal Year 2000 to accelerate capital projects, year 2000 remediation and School Library Printed Materials.

[5] Reflects an increase in reversions of $25 million per year included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget")

[6] Reflects payment delays included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget")

[7] Includes a $215.0 million Tuition Reserve for Fiscal Year 1996 (actual), a $240.0 million Tuition Reserve for Fiscal Year 1997 (actual), a $240.0 million Tuition Reserve for Fiscal Year 1998 (actual), a $255.0 million Tuition Reserve for Fiscal Year 1999 (actual), a $265.0 million Tuition Reserve for Fiscal Year 2000 (actual), a $265.0 million Tuition Reserve for Fiscal Year 2001 (actual), and a $265 million Tuition Reserve for Fiscal Years 2002 and 2003 (estimated).

Notes: Fiscal Year Ended June 30
Totals may not add as a result of rounding.

Source: State Budget Agency.

Combined State Balances and Reserves

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund, the Tuition Reserve and beginning with Fiscal Year 2001, the Medicaid Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Operating Revenues. Table 6 sets forth a history of total State Balances and Reserves compared to Operating Revenues for the past ten years and projections for Fiscal Years 2001-2003.

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Table 6
Combined State Reserves and Balances
(in millions of $)

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Medicaid Reserve (2)	Total Balances	Operating Revenue	Balance as % of Operating Revenues
			- - - - - - - - -Actual - - - - - - - - -				
1991	109.4	155.0	323.0	N/A	587.4	5,560.6	10.6%
1992	138.9	165.0	328.6	N/A	632.5	5,784.5	10.9%
1993	9.7	180.0	300.6	N/A	490.3	6,098.6	8.0%
1994	90.0	190.0	370.3	N/A	650.3	6,720.1	9.7%
1995	679.3	200.0	419.3	N/A	1,298.6	7,277.0	17.8%
1996	1,024.8	215.0	439.5	N/A	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	N/A	1,844.3	7,937.8	23.2%
1998	1,319.3	240.0	496.1	N/A	2,055.4	8,481.9	24.2%
1999	1,211.1	255.0	524.7	N/A	1,990.8	8,940.7	22.3%
2000	832.6	265.0	539.9	N/A	1,637.5	9,199.9	17.8%
			- - - - - - - - -Projected - - - - - - - - -				
2001	39.7	265.0	534.4	100.0	939.1	9,320.2	10.3%
2002	-0-	265.0	534.4	100.0	899.4 (3)	9,792.9	9.2% (3)
2003	-0-	265.0	534.4	100.0	899.4 (3)	10,207.6	8.8% (3)

Source: State Budget Agency
Totals may not add due to rounding.

(1) Projected balances are based on the Revenue Forecast dated April 11, 2001 and revenue and spending acts passed by the General Assembly through the 2001 Session.
(2) The Medicaid Reserve was not included as a part of combined reserves and balances until Fiscal Year 2001.
(3) Does not reflect any liability for payment delays. (See, explanation below)

Since Fiscal Year 1989, the state's Balances and Reserves have dropped below 10% of Operating Revenues only twice, in Fiscal Years 1993 and 1994 when such balances represented approximately 8.0% and 9.7% of Operating Revenue respectively. After Fiscal Year 1994, total balances and reserves grew significantly reaching a record 24.2% of Operating Revenues on June 30, 1998.

The 1999 General Assembly enacted a number of targeted tax reductions and spending increases. In November, 1999, the General Assembly also met for five days (which were counted as 2000 session days) and enacted an additional tax reduction and extended an existing tax credit. (See “STATE BUDGET PROFILE–Revenue Reductions”) All of the tax reductions and spending increases enacted by the 1999 and 2000 General Assemblies were expected to cause combined balances on June 30, 2001 to decrease to $1,220.7 million.

However, the December 19, 2000 revenue forecast decreased estimated General Fund revenues for Fiscal Year 2001 and only modest revenue growth of 4.9% and 4.4% for Fiscal Years 2002-2003 respectively. As a result of the current economic decline, the April 11, 2001 forecast update resulted in additional revenue decreases for Fiscal Years 2001-2003. The Budget Agency now estimates that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 will be about $1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. (See, STATE BUDGET PROFILE — Revenue Forecast”) Primarily as a result of that decrease in estimated revenues, the Budget Agency now estimates that combined balances will fall to $939.1 million, or 10.3% of Operating Revenues, on June 30, 2001. That balance includes $100 million in the Medicaid Reserve that was not included in combined balances and reserves prior to Fiscal Year 2001.

Combined balances and reserves reflected in Table 6 for Fiscal Years 2002 and 2003 total $899.4 for both years. This represents 9.2% and 8.8% of Operating Revenues for each respective year. However, those figures do not reflect any liability for payment delays authorized for the 2002-2003 biennium. The Budget Agency estimates that if no funds are transferred to the General Fund from the Rainy Day Fund (beyond transfers needed to maintain the $534.4 million maximum balance established by the General Assembly) it will lead to General Fund-PTRF payment delays totaling $310.7 million by the end of Fiscal Year 2002 and $532.5 million by the end of Fiscal Year 2003. Delays in payments to schools, universities and local units of government have been authorized by the 2001 General Assembly. (See, STATE BUDGET PROFILE — The State's 2002-2003 Biennial Budget") There is no legal obligation for the State to make up for any payments that actually get delayed. And, should actual revenue exceed estimates, the additional revenue could be used to reduce payment delays. However, there is a reasonable expectation that the General Assembly will make up any payments that do get delayed in the 2002-2003 biennium with increased funding in the 2004-2005 biennium. And, under the budget plan adopted by the General Assembly, the State could elect not to delay payments by making additional transfers from the Rainy Day Fund to the General Fund. For that reason, it is reasonable to consider the effect payment delays would have on combined reserves and balances if the payment delays were considered to be a liability of the State. If estimated payment delays for the biennium were reflected as liabilities of the State, combined reserves and balances for Fiscal Years 2002 and 2003 would drop to $588.7 million and $366.9 million respectively. This would represent 6.0% and 3.6% of Operating Revenues for those years respectively.

The Budget Agency believes the combination of reserves and balances and the ability to delay significant payments, provides the State sufficient flexibility to manage the budget even if actual General Fund/PTRF revenues fall significantly short of the State's revenue forecast for the 2002-2003 biennium.

Medicaid Reserve

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of Fiscal Year 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. For the 2002-2003 biennium, the General Assembly set the Reserve level at $100 million, and for the first time, included the Reserve in the State's combined Balances and Reserves. The State intends to use about $73 million of the current $203.8 million balance in the Reserve to pay for an expected appropriation shortfall for Fiscal Year 2001. That would leave a balance in the Reserve of $130.8 million. On July 1, 2001, it is expected that $30.8 million will be transferred to the General Fund to set the Reserve at the $100 million level for the 2002-2003 biennium.

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. See "STATE BUDGET PROFILE—The State's 2000-2001 Biennial Budget—Higher Education." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized is subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly**.** However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures, improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; or (d) providing a building, structure or improvement for the care maintenance or treatment of persons with mental or addictive disorders.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

Facility	Project Description
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Facility; Miami Correctional Facility, Phase I; Rockville Correctional Facility; and Pendleton Juvenile Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facilities; acquisition, construction, renovation and equipping of women's correctional facility; and acquisition, construction and equipping of juvenile correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see "STATE INDEBTEDNESS—Debt Statement—Obligations Payable From Possible State Appropriations."

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

The State Office Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale "Hoosier Notes." For a more detailed description of the Commission's Hoosier Notes program, see "STATE INDEBTEDNESS— Authorized but Unissued Debt."

Transportation Finance Authority - Highway Financing. The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "STATE INDEBTEDNESS—Debt Statement—Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

Transportation Finance Authority - Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. On February 11, 1992, the TFA issued $201,320,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, Series A (the "1992 Airport Facilities Bonds"). On June 13, 1995, the TFA issued $29,720,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, 1995 Series A (the "1995 Airport Facilities Bonds"). On December 18, 1996, the TFA issued $137,790,000 aggregate principal amount of Airport Facilities Lease Revenue Refunding Bonds, 1996 Series A (the "1996 Airport Facilities Bonds"), to advance refund a portion of the 1992 Airport Facilities Bonds (the 1992 Airport Facilities Bonds, the 1995 Airport Facilities Bonds and the 1996 Airport Facilities Bonds, collectively, the "Airport Facilities Bonds"). As of January 1, 2001, $217,415,000 aggregate principal amount of the Airport Facilities Bonds remains outstanding.

The 1992 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at Indianapolis International Airport (the "Phase I Facility"), and the 1995 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping additional improvements (the "Phase IA Facility"). At present, United Air Lines, Inc. is using the Phase I Facility and Phase IA Facility (collectively, the "Airport Facilities") as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations.

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

Aviation Technology Center. On December 22, 1992, the TFA issued $11,630,000 aggregate principal amount of Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds"). As of January 1, 2001, $10,020,000 aggregate principal amount of the Aviation Technology Center Bonds remains outstanding.

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations. Recently, a Boeing 737 aircraft was added to the Aviation Technology Center for use for educational purposes by Vincennes and Purdue Universities.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing."

Recreational Development Commission. The Indiana Recreational Development Commission (the "Recreation Commission") was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued, on April 6, 1994, $19,285,000 aggregate principal amount of its Revenue Bonds, Series 1994 (the "Series 1994 Bonds"), to finance and refinance costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State. The Commission also issued, on February 12, 1997, $6,600,000 aggregate principal amount of its Revenue Bonds, Series 1997 (the "Series 1997 Bonds," collectively with the Series 1994 Bonds called the "Park Revenue Bonds") to finance the costs of acquisition, construction, renovation and equipping of improvements at Fort Benjamin Harrison State Park, including a golf course and related facilities. (All projects financed with Park Revenue Bonds are collectively, the "Park Projects") .As of January 1, 2001, $24,570,000 aggregate principal amount of the Park Revenue Bonds remain outstanding.

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

Indiana Bond Bank. The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998A Bonds issued in the principal amount of $10,830,000 to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 A Bonds in the principal amount of $11,760,000 to finance construction of the State's Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank" and Table 10.

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Debt Statement - Obligations Payable From Possible State Appropriations

Table 7 lists, by issuing agency, all long term debt that is subject to possible State appropriations through January 1, 2001.

Table 7
Schedule of Long Term Debt
Obligations Payable From Possible State Appropriations

(as of January 1, 2001)

Issuer/Series	Original Par Amount	Ending Balance 6/30/00	(Redeemed)/ Issued	Ending Balance 01/01/01
State Office Building Commission				
Government Center Parking Facilities				
Series 1990A	$ 26,669,824	$ 10,475,690	$ 0	$ 10,475,690
Series 1993A	42,410,000	35,300,000	(1,965,000)	33,335,000
Subtotal	$ 69,079,824	$ 45,775,690	$ (1,965,000)	$ 43,810,690
Government Center North				
Series 1990B	$ 77,123,542	$ 32,492,747	$ 0	$ 32,492,747
Series 1993B	107,555,000	93,195,000	(3,965,000)	89,230,000
Subtotal	$ 184,678,542	$ 125,687,747	$ (3,965,000)	$ 121,722,747
Government Center South				
Series 1990C	$ 18,063,800	$ 7,089,520	$ 0	$ 7,089,520
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 1993C	28,440,000	9,500,000	(405,000)	9,095,000
Series 2000B	43,400,000	43,400,000	0	43,400,000
Subtotal	$ 200,578,800	$ 113,699,520	$ (405,000)	$ 113,294,520
Correctional Facilities				
Series 1995A	$ 54,025,000	$ 53,220,000	$ (430,000)	$ 52,790,000
Series 1995B	47,975,000	46,750,000	(1,275,000)	45,475,000
Series 1998A	93,020,000	93,020,000	0	93,020,000
Series 1999A	96,785,000	96,785,000	(2,765,000)	94,020,000
Series 2000A	44,800,000	44,800,000	0	44,800,000
Subtotal	$ 336,605,000	$ 334,575,000	$ (4,470,000)	$ 330,105,000
TOTAL SOBC	$ 790,942,166	$ 619,737,957	$ (10,805,000)	$ 608,932,957
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	$ 72,498,391	$ 47,733,392	$ (9,721,495)	$ 38,011,897
Series 1992A	74,035,000	39,815,000	(2,200,000)	37,615,000
Series 1993A	193,531,298	161,911,298	(9,200,000)	152,711,298
Series 1996B	27,110,000	26,440,000	(240,000)	26,200,000
Series 1998A	175,360,000	175,360,000	0	175,360,000
Series 2000A	269,535,000	0	269,535,000	269,535,000
Subtotal	$ 812,069,689	$ 451,259,690	$ 248,173,505	$ 699,433,195

Airport Facilities Bonds				
Series 1992A	$ 201,320,000	$ 57,055,000	$ (5,015,000)	$ 52,040,000
Series 1995A	29,720,000	28,375,000	(790,000)	27,585,000
Series 1996A	137,790,000	137,790,000	0	137,790,000
Subtotal	$ 368,830,000	$ 223,220,000	$ (5,805,000)	$ 217,415,000
Aviation Technology Bonds				
Series 1992A	$ 11,630,000	$ 10,020,000	$ 0	$ 10,020,000
Subtotal	$ 11,630,000	$ 10,020,000	$ 0	$ 10,020,000
TOTAL ITFA	$ 1,192,529,689	$ 684,499,690	$ 242,368,505	$ 926,868,195
Recreational Development Commission				
Series 1994	$ 19,285,000	$ 18,800,000	$ (225,000)	$ 18,575,000
Series 1997	6,600,000	6,200,000	(205,000)	5,995,000
TOTAL IRDC	$ 25,885,000	$ 25,000,000	$ (430,000)	$ 24,570,000
Animal Disease & Diagnostic Laboratory				
Series 1998B	$ 10,830,000	$ 9,285,000	$ (315,000)	$ 8,970,000
TOTAL ADDL	$ 10,830,000	$ 9,285,000	$ (315,000)	$ 8,970,000
TOTAL ALL BONDS	$ 2,020,186,855	$ 1,338,522,647	$ 230,818,505	$ 1,569,341,152

Source: State Budget Agency

Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table 8 lists, by issuing agency, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased) that are due in State Fiscal Years 2001-2004 and those scheduled thereafter until the bonds are retired.

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Table 8
Scheduled Principal and Interest Payments
Payable From Possible State Appropriations

Issuer/Series	FY 01	FY 02	FY 03	FY 04	Thereafter
State Office Building					
Government Center Parking					
Series 1990A	468,050	1,948,050	1,948,050	1,948,050	18,661,725
Series 1993A	3,698,309	3,691,946	3,689,389	3,689,981	34,185,467
Subtotal	4,166,359	5,639,996	5,637,439	5,638,031	52,847,192
Government Center North					
Series 1990B	1,451,880	6,041,880	6,041,880	6,041,880	57,883,561
Series 1993B	8,615,564	8,611,016	8,603,809	8,597,976	102,514,307
Subtotal	10,067,444	14,652,896	14,645,689	14,639,856	160,397,868
Government Center South					
Series 1990C	317,090	1,317,090	1,317,090	1,317,090	12,629,245
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	72,958,585
Series 1993C	879,053	875,280	875,280	878,780	10,451,530
Series 2000B(1)	2,009,782	3,265,500	8,799,000	8,686,500	36,630,000
Subtotal	6,911,915	9,163,860	14,697,360	14,588,360	132,669,360
Correctional Facilities					
Series 1995A	3,322,130	3,326,769	3,320,028	3,321,861	89,909,111
Series 1995B	3,862,381	3,860,058	3,858,843	3,853,508	64,934,656
Series 1998A	4,501,326	6,903,551	8,574,151	8,572,990	110,706,360
Series 1999A	7,657,038	7,867,213	7,870,431	7,869,119	124,855,518
Series 2000A(1)	2,074,613	4,200,000	4,104,000	4,102,500	61,285,500
Subtotal	21,417,488	26,157,591	27,727,453	27,719,978	451,691,145
TOTAL SOBC	42,563,206	55,614,343	62,707,941	62,586,225	797,605,565
Transportation Finance					
Highway Revenue Bonds					
Series 1990A	6,150,288	6,150,288	6,150,288	6,150,288	56,351,061
Series 1992A	4,807,510	4,800,445	2,399,380	2,399,380	58,709,130
Series 1993A	13,835,198	13,845,448	13,853,698	13,848,263	216,851,458
Series 1996B	1,592,985	1,592,080	3,989,010	3,989,708	23,727,825
Series 1998A	9,071,740	12,111,765	12,098,890	12,108,846	244,961,542
Series 2000A	7,465,312	14,766,551	17,210,301	17,097,176	523,964,885
Subtotal	42,923,033	53,266,577	55,701,567	55,593,661	1,124,565,901
Airport Facilities Bonds					
Series 1992A	8,432,391	8,742,756	9,064,853	9,385,525	45,930,526
Series 1995A	2,329,305	2,376,240	2,420,893	2,469,868	35,585,999
Series 1996A	7,480,470	8,204,983	8,216,608	8,219,933	189,627,191
Subtotal	18,242,166	19,323,979	19,702,354	20,075,326	271,143,716
Aviation Technology Center					
Series 1992A	958,455	955,375	955,945	955,000	13,402,075
Subtotal	958,455	955,375	955,945	955,000	13,402,075
TOTAL ITFA	62,123,654	73,545,931	76,359,866	76,623,987	1,409,111,692
Recreational Development Commission					
Series 1994	1,342,595	1,380,070	1,419,395	1,460,203	28,217,761
Series 1997	525,390	526,043	526,030	525,333	7,787,234
TOTAL IRDC	1,867,985	1,906,113	1,945,425	1,985,536	36,004,995
Animal Disease & Diagnostic Lab					
Series 1998B	1,041,783	1,040,638	1,042,894	1,043,475	7,822,103
TOTAL ADDL	1,041,783	1,040,638	1,042,894	1,043,475	7,822,103
TOTAL ALL BONDS	107,596,628	132,107,025	142,056,126	142,239,223	2,250,544,355

Note: Excludes principal and interest on refunded bonds.

(1) Debt service on variable rate debt is determined by actual rates through January 1, 2001 and the interest rate cap of 6% for remaining years.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At $258, the State's net tax-supported debt per capita ranks in the bottom quintile, approximately 40th among the states. In February 2000, the median per capita debt for all the states was about $540 and the mean was about $727. At 1.0%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 43rd among all the states. In February 2000, the median percentage for all the states was about 2.2% and the mean was about 2.7%. Even with the issuance of new debt authorized by the General Assembly, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past eight years are reflected in the Table 9 shown below.

Table 9
Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income

Fiscal Year	Population	Personal Income[1]	Outstanding Debt Subject to Appropriation	Debt/Capita	Debt/Income
1993	5,700,243	$112,701	$ 1,001,051,854	$175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,907,617	141,650	1,240,092,643	210	0.9
1999	5,942,901	146,900	1,228,372,647	207	0.8
2000	6,080,485[2]	162,567[3]	1,569,341,152[4]	258	1.0

(1) Personal Income is expressed in millions of dollars.
(2) Preliminary 2000 Census
(3) 2nd quarter, 2000 estimate
(4) Debt outstanding on January 1, 2001

Source: United States Bureau of Census for population (release dated December 29, 2000), United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) a special needs facility to be converted from an existing State mental hospital near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and it is expected to be available for use and occupancy in late 2001); and (2) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2002.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes—a tax-exempt commercial paper program." Initially, $100.0 million aggregate principal amount of Hoosier Notes were authorized to be issued by the Commission, beginning in February 1998. The authorization was subsequently increased to $150.0 million in January 1999, to $200 million in January 2001 and to $250 million in March 2001. As of May 1, 2001, $221.9 million of Hoosier Notes were outstanding. Since inception, the weighted average coupon for the program has been 3.586%.

The Commission refinanced (1) $85.7 million of the Hoosier Notes used to finance construction of Phase I of the Miami Correctional Center through issuance and sale of its Facilities Revenue Bonds, Series 1999A in July 1999, and (2) $40.45 million of Hoosier Notes used to finance construction of the Pendleton Juvenile Correctional Facility through the issuance and sale of its Facilities Revenue Bonds, Series 2000A in June, 2000. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance construction of Phase II of the Miami Correctional Facility and a replacement mental health facility in Evansville, Indiana. Phase II of the Miami Correctional Facility is expected to become available for use and occupancy in late 2001. The Commission has just started design of the Evansville facility and has not yet established a construction time line. The Commission is also providing short-term, or construction, financing for these facilities through issuance and sale Hoosier Notes.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects. The TFA issued the first series of bonds in the principal amount of $175,360,000 on July 9, 1998, and a second series in the principal amount of $269,535,000 on November 29, 2000. Beginning in 2002, the TFA is expected to issue additional bonds in the aggregate principal amount of approximately $300 million to finance projects designed to increase the capacity of State highways.

Contingent Obligations

Certain State entities, including the Indiana Department of Transportation, Indiana Bond Bank, Indiana Recreational Development Commission and Indiana Development Finance Authority, have entered into lease agreements or issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority - Toll Road Financing. The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see "STATE INDEBTEDNESS—Debt Statement—Contingent Obligations."

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing" and "Indiana Transportation Finance Authority-Aviation Financing."

Indiana Bond Bank. The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to $1,000.0 million plus (a) up to $200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to $30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

As of January 1, 2001, the Bond Bank had $1,292,757,207 in bonds and notes outstanding, including $196,950,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of $47,960,151. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see "STATE INDEBTEDNESS—Debt Statement-Contingent Obligations."

As of January 1, 2001, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels; however, on January 1, 1999, the Town of Claypool, Indiana (a borrower of $328,000 aggregate principal amount of the Bond Bank's Special Program Pool, Series 1991F) failed to make payment of $21,546.75, which payment was then made by the Bond Bank from available monies and thereafter such borrowing was restructured and the payment delinquency cured.

Development Finance Authority. The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as described below, the Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority has issued numerous revenue bonds. Except as described below, the revenue bonds are not payable from State appropriations. The Development Finance Authority issued on May 25, 1995, $21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. As of January 1, 2001, $17,600,000 aggregate principal amount of the Steel Dynamics Bonds remain outstanding. In addition, the Development Finance Authority issued $33,100,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the "Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds, $28,700,000 of which revenue bonds remain outstanding as of January 1, 2001. Finally, the Development Finance Authority issued $13,800,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the "Heartland Steel Bonds") secured in part by a debt service reserve fund established exclusively for the Heartland Steel Bonds, $12,300,000 of which revenue bonds remain outstanding as of January 1, 2001. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table 10 "Schedule of Long Term Debt-Contingent Obligations" shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Qualitech Bonds remain current. On or about August 26, 1999, substantially all of Qualitech Steel Corporation’s assets were sold with court approval to designees of Qualitech’s pre-petition secured lenders. As of January 1, 2001, the bankruptcy proceedings were not concluded, however, it is likely that, at some point in the future, the debt service reserve fund established for the Qualitech Bonds will not be fully funded and the Development Finance Authority will be required to seek an appropriation from the General Assembly to replenish such debt service reserve fund or to reimburse Bank One, Indiana, N.A. for unreimbursed draws under a letter of credit it issued to secure payment of the Qualitech Bonds. Presently the debt service reserve fund remains fully funded and the biennial budget bill includes sufficient funds to pay the Qualitech bond payments through the ‘01-’03 biennium. On or about January 31, 2001, Qualitech ceased operations and permanently laid off the majority of its employees.

On January 24, 2001, Heartland Steel Corporation, the corporation whose revenues are the primary source of repayment for the Heartland Steel Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Heartland Steel Bonds remain current and the biennial budget bill provides $1,000,000 in additional funding to supplement bond payments for the Heartland Steel Bonds.

The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

Debt Statement - Contingent Obligations

Table 10 lists the long term debt classified as contingent obligations that was outstanding on January 1, 2001. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See "STATE INDEBTEDNESS—Contingent Obligations."

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Table 10
Schedule of Long Term Debt
Contingent Obligations
(as of January 1, 2001)

Issuer/Series	Original Par Amount	Ending Balance 6/30/00	(Redeemed)/ Issued	Ending Balance 01/01/01
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	$ 256,970,000	$ 26,200,000	$ -	$ 26,200,000
Series 1987	184,745,000	48,130,000	(1,835,000)	46,295,000
Series 1993	76,075,000	55,965,000	(8,195,000)	47,770,000
Series 1996	134,795,000	133,300,000	(590,000)	132,710,000
Subtotal	$ 652,585,000	$ 263,595,000	$ (10,620,000)	$ 252,975,000
Indiana Bond Bank				
Special Program Pool				
Series 1991C	$ 9,360,000	$ 7,570,000	$ 0	$ 7,570,000
Series 1991F	15,330,000	12,860,000	(520,000)	12,340,000
Series 1992A (hospital)	21,000,000	16,045,000	0	16,045,000
Series 1992A	9,115,000	8,195,000	(225,000)	7,970,000
Series 1992B	15,735,000	9,955,000	(420,000)	9,535,000
Series 1993A	7,975,000	6,955,000	(250,000)	6,705,000
Series 1993B	14,915,000	13,805,000	0	13,805,000
Series 1994B	8,475,000	7,530,000	(360,000)	7,170,000
Series 1995A	4,540,000	4,155,000	(150,000)	4,005,000
Series 1995B	13,280,000	12,080,000	0	12,080,000
Series 1997A	6,295,000	6,020,000	0	6,020,000
Series 1997B	22,855,000	22,855,000	0	22,855,000
Series 1997C	5,010,000	5,010,000	0	5,010,000
Series 1998A	6,485,000	6,485,000	0	6,485,000
Series 2000A	31,495,000	31,495,000	0	31,495,000
Series 2000A (refunding)	32,860,000	32,860,000	(5,000,000)	27,860,000
Subtotal	$ 224,725,000	$ 203,875,000	$ (6,295,000)	$ 196,950,000
Indiana Development Finance Authority				
Qualitech Steel	$ 33,100,000	$ 29,800,000	$ (1,100,000)	$ 28,700,000
Steel Dynamics	21,400,000	18,600,000	(1,000,000)	17,600,000
Heartland Steel	13,800,000	13,800,000	(1,500,000)	12,300,000
Subtotal	$ 68,300,000	$ 62,200,000	$ (3,600,000)	$ 58,600,000
TOTAL – ALL BONDS	$ 945,610,000	$ 529,670,000	$ (21,145,000)	$ 508,525,000

Source: State Budget Agency

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Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Entity	Statute	Purpose of Debt Issuance
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority (1)	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority (2)	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc.(3)	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

(1) Originally the Indiana Hospital Equipment Financing Authority.

(2) Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

(3) A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See “Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000—Employee Retirement Systems and Plans.”

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees’ Retirement Fund and the Teachers’ Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With assets of more than $8,559.1 million on June 30, 2000, PERF is the State's largest pension fund and has no unfunded liability. PERF has management responsibility for total assets of $11,502.7 million, which includes pension assets of local government units, the Judges’ Retirement System, Legislators’ Retirement System, Prosecutors’ Retirement System, municipal police and fire units and State conservation and excise officials. On June 30, 2000, there were 204,286 active and retired members participating in PERF from State and local government.

State employees constitute approximately 36% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations**.** For 1999, 2000, and 2001 the State contribution rate was set at 5%, the lowest rate in over 10 years.

Table 11
Public Employees' Retirement Fund
History of Contribution Rates

Valuation Date	State Contribution Rate
July 1, 2000	5.0%
July 1, 1999	5.0%
July 1, 1998	5.7%
July 1, 1997	6.6%
July 1, 1996*	6.6%
July 1, 1995*	6.3%
July 1, 1994	5.6%
July 1, 1993	6.2%
June 30, 1992	6.6%
June 30, 1991	7.0%
June 30, 1990	7.3%
June 30, 1989	7.8%

*These contribution rates reflect the normal retirement date as changed by statute to the "Rule of 85" and reflect changes in actuarial assumptions.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

As of July 1, 2000, the State-related portion of the PERF plan was actually overfunded by $258.9 million. The better-than-expected funded status of the plan can be attributed to greater than expected investment gains. The plan has achieved this overfunded status even though it incorporates conservative actuarial assumptions into the valuation process.

Table 12
PERF Actuarial Assumptions

- 7.25% Investment Return
- 5% Salary Increases
- 2% Retiree Cost-of-Living Benefit Increases
- 1983 GAM Mortality Tables
- Retirement rates based on PERF Experience Study 1991-1994
- Disability rates based on PERF Experience Study 1991-1994
- Turnover by age and service based on PERF Experience Study 1991-1994

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

Table 13 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1999 and June 30, 2000.

Table 13
Indiana State Public Employees' Retirement Fund

	June 30, 1999	June 30, 2000
Normal Cost	$ 73,931,188	$ 80,217,996
Accrued Liability (Non-retired)(1)	1,583,485,563	1,701,091,436
Unfunded (Overfunded) Accrued Liability (Non-retired)(1)	(245,098,880)	(258,926,582)
Actuarial Present Value of All Accumulated Plan Benefits	911,681,909	988,638,974
Present Value of Vested Benefits	760,263,989	831,616,226
Non-retired Participant Assets(2)	1,828,584,443	1,960,018,018

Notes: (1) There is no Unfunded Accrued Liability for retired members' benefits.
(2) Actuarial Value.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 1999 and June 30, 2000.

In November 1996, a referendum amending the State constitution to permit public pension funds to invest in equities was passed. In May 1997, after enactment of House Enrolled Act 1036, the Board of Trustees of PERF began shifting the asset allocation of its investment portfolio. The shifting was scheduled to take place over a projected three-year transition period to a target asset allocation of 60% equities and 40% fixed income securities. After an updated asset/liability study of the Plan in early 2000, the Board of Trustees approved a new target asset allocation of 55% domestic equities, 10% international equities, 32% fixed income securities and 3% real estate. It is expected that the new targeted asset allocation will produce a more diversified, safer and higher yielding investment portfolio in the long run. As of June 30, 2000, approximately 60% of the employer reserves under PERF's control have been shifted to domestic equity investments.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 2000, TRF had 110,748 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the "Rule of 85" for eligibility purposes.

Moneys to pay retirement benefits are provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, there accumulated a substantial unfunded accrued liability in the “old plan” as shown in Table 14 below.

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Table 14
Indiana State Teachers' Retirement Fund

	June 30, 1999	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,659,118,423	$ 3,903,234
Non-retired	8,513,383,027	494,519,759
Total	12,172,501,450	498,422,993
Unfunded Accrued Liability		
Retired	$ 1,428,041,751	$ -
Non-retired	6,013,793,279	258,369,079
Total	$ 7,441,835,030	$ 258,369,079 **
	June 30, 2000	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,890,895,561	$ 8,679,114
Non-retired	8,518,379,657	697,111,111
Total	12,409,275,218	705,790,225
Unfunded Accrued Liability		
Retired	$ 1,380,424,751	$ -
Non-retired	5,818,961,181	337,632,726
Total	$ 7,199,385,932	$ 337,632,726 **

*The new plan is actuarially funded by local school districts.
**Total Unfunded Accrued Liability of the new plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Pre-1995 Plan.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 1999 and June 30, 2000.

To aggressively address TRF's unfunded liability, the State:

1. Capped the growth of the benefit obligations by creating a new, actuarially sound plan for all teachers hired or transferred after July 1, 1995. The "new" plan is funded by local school districts on a current basis using a level percent of payroll approach.
2. Created a new Pension Stabilization Fund dedicated to limiting growth in future General Fund appropriations for the pre-July 1995 plan to no more than normal growth in General Fund revenues. The Pension Stabilization Fund has been funded through the following transfers and appropriations:

Amount	Source	Time	Frequency
$439.7 million	Pension reserves	1995-1997 Biennium	One-time
$250.0 million	General Fund appropriation	1995-1997 Biennium	One-time
$150.0 million	General Fund appropriation	1997-1999 Biennium	One-time
$250.0 million	General Fund appropriation	1999-2001 Biennium	One-time
$30.0 million	Gaming Revenue appropriation	Annually, beginning FY 1996	Ongoing

The Teachers' Retirement Fund reports that the balance in the Pension Stabilization Fund on March 31, 2001 was approximately $1.753 billion (unaudited) from all sources.

3. Changed the State constitution to allow investment in equities, thereby increasing earnings estimates for plan assets. In August 1997, TRF's trustees adopted a new asset allocation plan, establishing a long-term goal of investing 52.0% of plan assets in equity investments. As of June 30, 2000, 46% of the Fund's employer controlled assets were invested in equities. The independent, non-partisan, Indiana Fiscal Policy Institute, estimated that investing in equities had resulted in an additional $648 million in earnings to the Plan as of December 31, 1999.

4. Adopted increased employer contribution rates for the new plan based on recommendations made by the Fund's actuaries in the June 30, 1999 Actuarial Valuation Report. At the November 30, 2000 TRF Board meeting, the trustees increased the employer contribution rate from 8.5% to 9% to address the growing unfunded accrued liability in the new plan. The trustees also established a 40 year "closed" amortization period for the new plan's unfunded actuarial accrued liability. The actuaries determined that the existence of an unfunded accrued liability in the new plan is primarily attributed to the transfer of members and their accrued liabilities from the old plan.

The substantial changes to the old and new plans were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of such plans. An independent analysis of the plans done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. Another example of how the changes are working is highlighted in Table 15, with the growth in the unfunded liability decreasing dramatically to less than 2% a year from a volatile range of 5% to over 20% prior to 1995, and finally in 2000 achieving an actual decrease.

Table 15
Growth of Unfunded Liability in Teachers' Retirement Fund Closed, Pre-1995 Plan

June 30	Computed Actuarial Accrued Liability	Valuation Assets ($ in Millions)	Unfunded Actuarial Accrued Liability (UAAL)	% Change from previous Year*
1975	$1.570	$ 312	$1.258	
1977	2.145	375	1.770	20.3%
1979	2.582	466	2.116	9.8%
1980	2.843	539	2.304	8.9%
1981	2.957	601	2.356	2.3%
1983	3.338	765	2.573	4.6%
1985	4.023	1.073	2.950	7.3%
1987	4.837	1.401	3.436	8.2%
1989	6.205	1.707	4.498	15.5%
1991	7.182	2.161	5.021	5.8%
1992	7.949	2.376	5.573	11.0%
1993	8.508	2.592	5.916	6.2%
1994	9.087	2.809	6.278	6.1%
1995	9.675	2.984	6.691	6.6%
1996	10.283	3.242	7.041	5.2%
1997	10.868	3.678	7.190	2.1%
1998	11.481	4.130	7.351	2.2%
1999	12.17	4.731	7.442	1.2%
2000	12.409	5.210	7.199	(3.3%)

*Where a valuation year is skipped, the percentage change is divided by two to approximate the change over a two-year period.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

The actuaries acknowledge that the assumptions used to calculate the unfunded liability are more conservative than many public pension plans. Because the liability is calculated using these various assumptions, any changes to those assumptions could substantially impact the amount of the unfunded liability

Table 16
TRF Actuarial Assumptions

- 7.5% Investment Return
- 5.5% Salary Increases plus an additional Merit and/or Seniority increase ranging from 1.5% to 3% for those members with 5 to 40 years of service.
- 1983 GAM Mortality Tables
- Retirement rates based on TRF Experience Study 1991-1996*
- Disability rates based on TRF Experience Study 1991-1996*
- Turnover by age and service based on TRF Experience Study 1991-1996*

*A new TRF Experience Study must be completed every 5 years and is due to be completed in 2001.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

Indiana Judges' Retirement System

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table 17 summarizes the results of the actuarial valuation of JRS on July 1, 1998, and July 1, 1999.

Table 17
Indiana Judges' Retirement System

	July 1, 1999	July 1, 2000
Normal Cost[(1)]	$ 4,894,302	$ 4,627,745
Accrued Liability	176,301,145	182,447,802
Unfunded Accrued Liability	85,228,571	78,715,197
Valuation Assets[(2)]	$ 91,072,574	$ 103,732,605
Number of Members		
Active and Inactive	341	336
Terminated and Vested	18	17
Retired	221	228
Total	580	581

(1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately $1.9 million in 1999 and $1.8 million in 2000 leave net employer normal cost of approximately $4.6 million in 2000.
(2) Actuarial Value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1999 and 2000.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1999.

Other State Plans

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 2000, the plan had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $1,717,593 and an unfunded actuarial liability of $11,903,897.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State authorized additional appropriations of $50.0 million during 1996 and $25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another $20 million per year from the lottery proceeds (beyond the existing $10 million per year) to the pension relief fund. For the 2000 Calendar Year, $76.652 million was expended from the State's pension relief fund, and on December 31, 1999, the State's pension relief fund had a balance of $498.811million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 2000, the plan had a total annual cost of $177,559, a cost per eligible active participant of $1,492 and an unfunded actuarial liability of $896,370.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 2000, the fund had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $375,145 and an unfunded actuarial liability of $4,161,682.

Local Plans

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana's economy continues to grow in size and diversity. With an estimated 1998 Gross State Product of more than $174.4 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown significantly faster than the nation during the 1990's, with a growth rate of 57.2% compared to 53.2% for the U.S. From 1990 to 1998, Indiana's contribution to the national Gross Domestic Product increased by $63.4 billion, rising from 1.9% to 2.0% of total output. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

In 1999, Indiana ranked 36th nationally with per capita income of $26,143, or 91.6% of the U.S. average. This represents an improvement from 1990, when Indiana's per capita income was 90% of the national average. Since 1990, Indiana's annual average growth rate for per capita income of 4.6% exceeded the national average of 4.4%. During the first part of the decade, median income fell in Indiana and across the U.S. However, since 1994 Indiana's household income has risen sharply, growing 13% faster than the nation's. In 1999, Indiana's median household income of $40,769 exceeded the national average of $40,280.

Between 1988 and 2000, Indiana experienced strong gains in non-farm employment, adding 614,800 net new jobs, for a growth rate of 25.7%. Since 1995, employment growth has slowed to 4.2% annually, dropping below the national growth rate of 8.2% This may be a reflection of tight labor markets as Indiana's unemployment rate has fallen significantly below the nation's, ranging from 69% to 82% of the U.S. average. In 2000, Indiana's average unemployment rate of 3.2 % was again below the national average of 4.0%

From 1988 to 2000, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 57.1%, followed by a 42.8% gain in construction and a 25.0% increase in wholesale and retail trade. During this period, the number of manufacturing jobs also increased by 8.1%. However, manufacturing jobs declined from a 26.6% share of total non-farm employment to a 23.3% share. The service sector increased from 20% to 25.3%, and is now the largest single sector of employment in Indiana. The diversity of the workforce is reflected in the fact that Indiana's top five employment sectors comprise just 27% of the workforce, with health services the largest segment of private employment.

Indiana is the 15th largest exporting state in the nation. Since 1988, exports in Indiana have outperformed the nation, increasing by over 247%, compared to 150% for the nation as a whole. In 2000, Indiana experienced export growth in excess of 19.2% while exports for the United States increased by about 12.6%. A large increase in exports to Mexico and a return of exports to Asian markets contributed to Indiana's 2000 export increase. In 2000, Indiana experienced another record breaking year with the State's exports reaching an all time high of $16.5 billion.

Indiana benefits from proximity to major markets and population centers — both national and international. Through Indiana's three ports, businesses can access markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; and to the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a day's drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Energy costs are comparatively low in Indiana. Utility rates for all industrial customers are about 11% lower than the national average and residential energy bills are about 14% lower than the national average.

Table 18 compares changes in employment, population and personal income between Indiana and the United States since 1950.

Table 18						
Summary Comparison: Indiana and the U.S.						
	1950	1960	1970	1980	1990	2000
Employment [(1)]						
Indiana	1,272	1,431	1,849	2,130	2,522	2,968
% Change	--	12.5%	29.2%	15.2%	18.4%	17.7%
U.S.	45,197	54,189	70,880	90,406	109,419	128,615
% Change	--	19.9%	30.8%	27.6%	21.0%	17.5%
Population [(2)]						
Indiana	3,934	4,662	5,195	5,490	5,544	6,080
% Change	--	18.5%	11.4%	5.7%	1.0%	9.7%
U.S.	151,326	179,323	203,302	226,546	248,710	281,422
% Change	--	18.5%	13.4%	11.4%	9.8%	13.2%
Personal Income [(3)]					**1999**	
Indiana	$1,510	$2,209	$3,810	$9,449	$17,625	$26,143
% Change	--	46.3%	72.5%	148.0%	86.5%	48.3%
U.S.	$1,492	$2,276	$4,095	$10,183	$19,584	$28,542
% Change	--	52.6%	79.9%	146.7%	92.3%	45.7%

[(1)] In thousands. Non-agricultural payroll employment only. See Table 25.
[(2)] In thousands. With the exception of 1996, reflects the results of the census as of April 1 of each year. 1999 Figures are preliminary release dated April 2000.
[(3)] Growth measured by current dollars per capita. See Table 22. Revised figures released September 12, 2000 by Bureau of Economic Analysis.

Source: U.S Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis.

Population

Indiana is the 14th most populous state in the United States. After leveling off during the 1980s, the pace of Indiana's population growth has increased in recent years. Numbers from the 2000 Census place Indiana's population at just over 6 million people, an increase of 9.7% from the 1990 Census. Indiana's population increased not only in relative terms, but its population increase of 536,326 persons during the 90's, was the 18th largest population increase in absolute terms. During the decade, Indiana's rate of growth outpaced all other mid-western states by a significant margin.

Throughout the decade, Indiana has benefited from net in-migration; meaning, more people are entering the State than leaving it, reversing an out-migration trend that occurred in the 1980s. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1999.

Table 19					
Net Population Migration (In thousands**)**					
Year	Indiana	Illinois	Michigan	Ohio	Kentucky
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
1999	4	-18	-3	-26	10
1990-99	111	-175	-99	-113	113

Source: U.S. Census Bureau. 1990-1999 total based on revised figures released in 2000.

The capitol and largest city in the state is Indianapolis. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders. From 1990 to 1999, population growth within the Indianapolis MSA increased 11.3%, making it the second fastest growing major metropolitan area in the Midwest, surpassing the nation's growth. All but one of Indiana's other metropolitan areas showed increases in population for the decade, with the Elkhart-Goshen area leading the way at 11.8%, while the Muncie region's population decreased 3.5%.

Table 20			
Population of Indiana Cities and MSAs			
City	Population Estimates (1999)	MSA	Population Estimates (1999)
Indianapolis	749,000	Indianapolis MSA (1)	1,536,700
Fort Wayne*	197,000	Fort Wayne MSA (2)	484,300
Evansville	122,000	Evansville-Henderson MSA (3)	291,200
Gary*	110,000	Gary Primary MSA (4)	628,400
South Bend	99,000	South Bend MSA(5)	258,500

(1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSAs.

(2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.

(3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.

(4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.

(5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

* Fort Wayne and Gary submitted successful challenges to the Census Bureau's estimates – the numbers here reflect new official estimates for those cities as of January 2000.

Source: U.S. Census Bureau and the Indiana Business Research Center at the Indiana University Kelley School of Business.

As reflected in Table 21 and 21a, the State's demographic profile closely matches the nation. Changes in the Indiana demographic profile since 1990 also match national trends, including a decline in the portion of the population between eighteen and twenty-four and an increase in the portion of the "aging baby boomer" (age 45-64) population. Interestingly, Indiana has seen a nominal decrease in the size of its "senior citizen" population. Unlike the nation, Indiana's median age has become younger as a greater proportion of young people are added to the population.

Table 21				
Demographic Profile				
Age (Years)	Indiana		United States	
	1990	1999	1990	1999
Under 5	7.16	6.96	7.56	6.95
5-17	18.70	18.77	18.17	18.80
18-24	11.00	9.70	10.76	9.54
25-44	31.52	30.07	32.44	30.35
45-64	19.08	22.00	18.55	21.71
65 and older	12.55	12.50	12.52	12.67
Median Age	35.4	33.0	32.8	35.5

Source: U.S. Census Bureau and the Indiana University Kelley School of Business, Indiana Business Research Center

Table 21a				
Projected Population by Age 2000 to 2010 (in thousands)				
Age (Years)	Indiana		United States	
	2000	2010	2000	2010
Under 18	1,518	1,499	70,782	72,510
Percent	25.1	23.7	25.8	24.4
18 to 44	2,396	2,270	108,151	106,951
Percent	39.6	35.9	39.4	35.9
45 to 64	1,368	1,697	60,991	78,847
Percent	22.6	26.9	22.2	26.5
65 plus	763	852	34,710	39,408
Percent	12.6	13.5	12.6	13.2
Total	6,045	6,318	274,634	297,716

Source: Indiana Business Research Center, Indiana University Kelley School of Business and the U.S. Census Bureau.

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Income

Personal Income. In 1999, Indiana's per capita personal income reached $26,143, increasing 3.8% over 1998. Over the past ten years, Indiana's personal income has grown at an average annual rate of 4.6%, exceeding the national average rate of 4.4%.

Table 22				
Growth in Per Capita Personal Income				
	Indiana	U.S.	Indiana	U.S.
1989	16,770	18,566		
1990	17,625	19,584	5.1	5.5
1991	18,055	20,089	2.4	2.6
1992	19,629	21,082	6.7	4.9
1993	20,112	21,718	4.4	3.0
1994	21,153	22,581	5.2	4.0
1995	21,845	23,562	3.3	4.3
1996	22,775	24,651	4.3	4.6
1997	23,748	25,874	4.3	5.0
1998	25,182	27,322	6.0	5.6
1999	26,143	28,542	3.8	4.5
Annual Average Growth			4.6%	4.4%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. All numbers for 1989-1998 are revised. Revision and 1999 numbers released September 2000.

Household Income. Indiana's median household income has grown faster than the U.S. and now exceeds the national median. During the early 1990's household income declined in Indiana and across the U.S. After bottoming out in 1994, Indiana's household income has increased 27.6% to $40,769 in 1999 versus 13.9% growth over the same period for the U.S. Indiana is clearly a middle-income state. 70% of Indiana families earn incomes in the three middle quintiles, versus 60% for the U.S. Household income reflects, in addition to personal income, other sources of wealth such as social security, disability benefits, pensions, interest, dividend, trust, and rent. Household income may also reflect multiple wage earners contributing to family income.

Table 23				
Growth in Median Household Income 2-yr average				
	Indiana	U.S.	Indiana	U.S.
1989	35,136	37,755		
1990	33,813	37,670	-3.8%	-0.2%
1991	33,001	36,699	-2.4	-2.6
1992	32,783	35,824	-0.6	-2.4
1993	33,198	35,417	1.3	-1.1
1994	31,945	35,364	-3.8	-0.2
1995	33,174	35,966	3.9	1.7
1996	36,110	36,659	8.9	1.9
1997	38,004	37,227	5.3	1.6
1998	39,613	38,233	4.2	2.7
1999	40,769	40,280	2.9	5.4

Source: U.S. Census Bureau, Current Population Survey, March 1998, 1999, 2000.

Poverty. Indiana has the third lowest poverty rate in the nation, with only 8.3% of the state living below the poverty level in 1999. This represents a significant change from 1990 when 12.3% of Indiana residents lived in poverty, and a divergence from national trends, where poverty has remained consistent at around 13% of the population.

Table 24

Poverty Rates for Selected States – 1997-1999 3-Year Average

State	Poverty Rate	Rank (Lowest to Highest)
Maryland	7.6	1
Utah	7.9	2
Indiana	8.3	3
Wisconsin	8.5	4
Michigan	10.3	16
Illinois	10.4	17
Ohio	11.4	25
Kentucky	13.8	37
United States	12.6	--

Source: U.S. Census Bureau, March 1998, 1999, 2000 *Current Population Surveys.*

Employment by Sector

Indiana experienced strong gains in non-farm employment between 1988 and 2000, adding 614,800 net new jobs, a growth rate of 25.7%. During this period, employment has shifted between sectors, reflecting the fundamental changes taking place in the state's economy. As of March 2001, service sector employment represented 25.3% of all non-farm employment, nearly 3% more than the 22.4% of jobs held by the manufacturing sector. The top five industries within these sectors comprise 27% of the total workforce.

Table 25

Annual Non-Farm Employment (in thousands)

	1988	% of Total	1999	% of Total	Growth 1988-99	Sept. 2000	% of Total
Wholesale and Retail Trade	568.2	23.7%	702.2	24.0%	23.6%	705.5	23.3%
Manufacturing	636.5	26.6	690.0	23.4	8.4%	691.6	22.9
Services	478.3	20.0	728.7	24.3	52.4%	754.6	25.0
Government	354.5	14.8	403.0	13.7	13.7%	419.7	13.9
Transportation and Public Utilities	123.9	5.2	147.1	4.9	18.7%	147.0	4.9
Finance, Insurance, Real Estate	118.6	5.0	142.6	4.8	20.2%	144.0	4.8
Construction	107.3	4.3	147.9	5.0	37.8%	154.6	5.1
Mining	8.2	0.3	6.8	0.2	-17.1%	6.2	0.2
Total	2,395.5		2,968.3		23.9%	3,023.2	

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics. Indiana Department of Workforce Development.

Unemployment

Indiana has maintained lower annual unemployment rates than the nation since 1988. Although unemployment rates have fallen for both Indiana and the nation since 1992, Indiana has experienced much steeper declines. In 2000, Indiana's average rate of 3.2 % was again below the national average of 4.0%, and only two Indiana MSAs and 25 of its 92 counties had unemployment rates higher than the national average.

Table 26			
Unemployment Rate (annual averages of monthly data)			
Year	Indiana	U.S.	Indiana as % of U.S.
1989	4.7	5.3	88.7
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Industry Diversity

Over the course of the past decade, investment and expansion in certain high-wage industrial sectors have occurred in Indiana, while declining elsewhere. Several major industrial sectors such as steel, auto, and plastics have a major presence in the state and manufacturing employment in general has remained stable. Many industry analysts and economists often refer to Indiana's economy as one that is over reliant on one or two industrial sectors. However, it should be noted that Indiana's large industrial sector is not characterized by one or two predominant industries, but is notable for its industrial diversity. Indiana is a national leader in products as diverse as surgical supplies, potato chips, furniture, transistors, glass containers, band instruments, books, etc. The following table looks at the largest sectors by employment. Of the fifteen sectors listed below, only three are manufacturing, with most falling under services and trade.

Table 27		
Industry Diversity 1999		
Sector	Indiana Employment	Sector Share of Total Employment
Health Services*	260,030	8.9%
Eating and Drinking Places	204,851	7.0%
Educational Services*	197,981	6.8%
Motor Vehicles & Equipment	103,033	3.5%
Government (General)	74,885	2.6%
Department Stores	70,935	2.4%
Grocery Stores	61,466	2.1%
Trucking & Courier Services	59,138	2.0%
Plastic Products	39,974	1.4%
Amusement & Recreation	34,770	1.2%
Miscellaneous Business Services	34,494	1.2%
Steel Mills	33,043	1.1%
Commercial Banks	28,506	1.0%

*Note: all categories are three-digit SIC Code Classification except Health and Education Services which were combined into their two-digit codes.

Source: Bureau of Labor Statistics, Indiana Department of Workforce Development, Indiana Employment Review

Largest Employers

Table 28 lists the one hundred largest public and private employers in Indiana as of June 2000.

Table 28

100 Largest Public and Private Employers in Indiana

Company	Indiana FTE Employees	Company	Indiana FTE Employees
Kroger Co.	24,000	United Airlines	3,400
Wal-Mart	22,000	Walgreens Drug Stores	3,400
McDonald's	18,000	Federal Express	3,375
Delphi Automotive	17,000	United Technologies Corp.	3,350
General Motors	13,500	CNB Bankshares	3,300
Daimler-Chrysler Corp.	12,800	Coachman Industries	3,300
Eli Lilly and Co.	12,410	Subway	3,300
K-mart	12,000	Wabash National Corp.	3,300
Clarian Health Partners	10,000	Bob Evans Restaurants	3,200
Dana Corp.	9,300	Lincoln National Corp.	3,200
Marsh Supermarkets	8,900	SuperValu	3,200
Ispat Inland Inc.	8,300	Subaru Isuzu Automotive	3,160
Bank One, Indiana	8,000	Lear corp.	3,100
United States Steel Co.	8,000	Anthem	3,000
Visteon Automotive Systems	7,800	Applebees	3,000
Burger King	7,200	Hillenbrand Industries	3,000
General Electric Co.	7,100	KFC	3,000
Pizza Hut	7,050	Papa Johns Pizza	3,000
Cummins Engine Co.	7,000	Guide Corp	2,940
Ameritech Indiana	6,700	Whirlpool Corp.	2,900
Central Indiana Health System	6,500	White Castle	2,825
Kimball International Inc.	5.865	Aristokraft Inc.	2,800
CVS Drugs	6,050	Federal Mogul Corp.	2,800
Bethlehem Steel Corp.	6,000	Raytheon Co.	2,600
Meijer inc.	6,050	Thompson Consumer Electronics	2,530
NiSource Inc.	5,300	Fairmont Homes	2,500
Dairy Queen	5,200	Marriott	2,500
Wendy's	5,150	National City Bank	2,500
Rolls Royce Allison	5,000	USA Group	2,500
Taco Bell	5,000	Toyota Motor Co.	2,475
Hardees	4,800	Amtran	2,400
Sony Electronics	4,681	Bayer Corp.	2,350
Arby's RTM Mid-America	4,550	Tomkins Industries	2,350
Quorum	4,400	Brylane LP	2,300
Alcoa, Inc.	4,300	Frito-Lay Inc.	2,300
Bristol-Myers Squibb Co.	4,300	Goodwill Industries	2,300
Target	4,300	ITT Defense & Electronics	2,300
Sears & Roebuck	4,200	AT&T	2,200
Sony Electronics	4,150	Central Newspapers Inc.	2,200
Arvin Industries	4,100	Fleetwood Enterprises Inc	2,200
Cinergy/PSI	4,000	Lowe's	2,200
LTV Steel	4,000	Monaco Coach	2,200
Indiana Michigan Power	3,800	Dura Automotive	2,100
RR Donnelley & Sons	3,800	Allied Signal	2,050
United Parcel Service	3,740	Caesar's World Casino	2,000
Conseco	3,600	Hyatt Grand Victoria Casino	2,000
Consolidated Products	3,600	Smurfit Stone Container	2,000
Navistar International	3,500	Franklin Electric Co.	1,950
Norfolk Southern corp.	3,500	IPALCO	1,940
GTE North, Indiana	3,400	Burlington Motor Carriers	1,930

Source: Indiana Chamber of Commerce

Gross State Product

With an estimated 1998 Gross State Product of more than $174.4 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a significantly faster pace than the nation during the 1990's, increasing its weight as a percent of the national economy.

Table 29

Total Gross State and Domestic Product

	In Millions of Current Dollars			Growth Rate	
	1980	1990	1998	1980 to 1990	1990 to 1998
Indiana	58.501	110.991	174.433	89.7%	57.2%
U.S.	2,731,618	5,706,658	8,745,219	108.9%	53.2%
Indiana as %of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business.*

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined in importance to the Indiana economy, accounting for 1.4% of the State's economic production in 1998, same as the national average. Conversely, the service sector has grown significantly, increasing from 14.8% to 16.2% of total state output. Manufacturing, and in particular durable goods manufacturing, has witnessed modest relative declines in its share of Gross State Product, but at 31.1% still remains the single largest component of the economy.

Table 30

Gross State Product (GSP) and Gross Domestic Product (GDP)

	1990		1998		1998		Indiana
	GSP (millions)	% of Total	GSP (millions)	% of Total	**GDP** (millions)	% of Total	as a % of U.S
Agriculture, forestry, fisheries	2.476	2.2%	2.498	1.4%	125.205	1.4%	2.0%
Mining	640	0.6%	792	0.5%	105,914	1.2%	0.7%
Construction	5,074	4.6%	8,708	5.0%	373,228	4.3%	2.3%
Manufacturing	33,665	30.3%	54,258	31.0%	1,432,753	16.4%	3.8%
Transportation & Utilities	10,111	9.1%	13,623	7.8%	759,132	8.7%	1.8%
Wholesale Trade	6,452	5.8%	10,784	6.2%	613,800	7.0%	1.8%
Retail Trade	10,238	9.2%	15,576	8.9%	781,888	8.9%	2.0%
Finance, Insurance, Real Estate	13,691	12.3%	22,731	13.0%	1,674,162	19.1%	1.4%
Services	16,416	14.8%	28,313	16.2%	1,841,278	21.1%	1.5%
Government	12,228	11.0%	17,150	9.8%	1,037,857	11.9%	1.7%
Summed Total	110.991		174.433		8.745.219		2.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Totals may not add due to rounding.

Exports

Between 1988 and 2000, both Indiana and the nation experienced strong export growth. During this period, Indiana exports increased by over 247%, exceeding the overall national growth rate by 150%. In 2000, Indiana experienced export growth of slightly more than 19.17% while exports for the United States increased by about 12.64%. In 2000, the State's exports rose to an all-time high of $16.53 billion. The fastest growing industry was Primary Metals, with a 56% increase, followed by Industrial Machinery and Computer Equipment with a 35% growth over the prior year. Mexico accounts for the fastest growing market, with exports more than doubling from $812 million to $2.217 billion. Canada remained Indiana's largest trading partner. In 2000, Indiana opened its 13th foreign trade office in Israel.

Table 31					
Indiana Exports					
	Exports in Millions of Dollars		Annual Percentage Change		
Year	Indiana	U.S.	Indiana	U.S.	Indiana as a % Of U.S. Exports
1988	4,759	312,060	-.%	-.%	1.5%
1989	5,414	348,127	13.77	11.56	1.6
1990	6,359	392,975	17.46	12.88	1.6
1991	6,438	421,853	1.23	7.35	1.5
1992	6,837	447,471	6.21	6.07	1.5
1993	8,033	464,858	17.49	3.89	1.7
1994	9,261	512,416	15.29	10.23	1.8
1995	11,628	583,031	25.56	13.78	2.0
1996	12,039	622,827	3.53	6.83	1.9
1997	13,136	687,598	9.11	10.40	1.9
1998	13,403	680,474	2.03	(1.04)	2.0
1999	13,970	692,820	4.23	1.81	2.0
2000	16,528	780,419	19.17	12.64	2.1

Table 32			
Indiana's Leading Trade Partners			
Top Export Destinations		Fastest Growing Export Destinations **Since 1988***	
Country	2000 Exports ($M)	Country	% Avg. Annual
Canada	$7554	Poland	40.6
Mexico	2,217	Philippines	28.2
Uk	890	Hungary	28.0
Japan	876	Mexico	27.3
Netherlands	577	Malaysia	25.5
France	522	Honduras	23.8
Germany	452	Argentina	22.3
Brazil	328	Portugal	22.1
Australia	284	United Arab Emirates	21.6
Singapore	282	Chile	20.6

* Includes only those export destinations receiving over $100 million in total exports from Indiana since 1988.

Table 33			
Indiana's Leading Export Industries			
Top Export Industries		Fastest Growing Export Industries **Since 1988***	
Industry	2000 Exports ($M)	Industry	% Avg. Annual Growth
Transportation Equipment	$4,901	Fabricated Metal	18.13
Industrial. Machinery	2,916	Stone, Clay, & Glass	17.62
Chemicals	2,372	Transportation Equipment	15.90
Electronics	1,411	Instruments	14.65
Primary Metals	1,026	**Rubber & Plastic**	13.81
Fabricated Metals	880	**Industrial Machinery**	12.08
Technology Instruments	844	Wood Products	11.59
Rubber & Misc. Plastic	579	Food Products	9.72
Food Products	291	**Electronics**	8.30
Stone, Clay, & Glass	206	**Primary Metals**	7.95

Includes only those export destinations with growth over $100 million in total exports from Indiana since 1988.
Excludes Miscellaneous Goods shipments
Growth is based on geometric growth rate.

Source: Massachusetts Institute for Social and Economic Research (MISER)

Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

Highways. Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers. This is reflected in the density of truck traffic in the state. Indiana highways have sixth highest concentration of truck traffic and the highest for any urban or Eastern state.

Railroads. Indiana is served by at least 45 freight railroads according to the Rail Section of the Indiana Department of Transportation. The State rail network provides, among other transportation services, access between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track. Ninety of Indiana's ninety-two counties have direct rail service.

Aviation. The State has 117 public use landing facilities. Of these, five are primary airports, 11 are reliever airports, 91 are general aviation airports, 4 are ultralight flight parks, 4 are seaplane bases, and 2 are heliports. The primary airports include one medium hub, two small hub airports and two nonhub airports. The world's leading air cargo and package services operate major facilities in Indiana, including Federal Express, the U.S. Postal Service and American International Freightways.

Ports and Waterways. The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

Public Transportation. Indiana's 43 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 30.3 million passengers in 1999, an increase of 6.8% from 1998. Transit system vehicles traveled 31.0 million miles in 1999, an increase of 5.2% from 1998. Total fare revenue collected in 1999 was $29.6 million. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 27.4% in 1999. The State Public Mass Transportation Fund, which receives .8% of total State Sales and Use Taxes, accounted for $26.3 million, or 24.0%, of total public transit operating revenues in 1999.

Education

Elementary and Secondary. Elementary and Secondary education in the State is provided by 294 school districts, which in the 1999-00 school year operated 1,149 elementary schools, 258 elementary/ junior high schools, 19 elementary/high schools, 92 junior high/high schools, 74 junior high schools, 240 high schools and 7 schools of special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 1999-00 school year, accounted for 7.1% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 1999-00 school year was 985,469.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the State level, schools are administered by the State Board of Education, which is comprised of the Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor and the Superintendent of Public Instruction for four-year terms. At least four of the appointments must be actively employed in Indiana schools and hold valid teaching licenses. The State Board of Education is the State's policymaking and planning body for the public school system. The State Department of Education serves as the professional, technical and clerical staff for the Indiana State Board of Education.

Approximately 59,735 teachers and 10,344 other professional staff members were employed in the State public school system during the 1999-00 school year. This results in a student teacher ratio (based on total enrollment,) of 16.5:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was $41,850 during the 1999-00 school year.

Higher Education. The Commission for Higher Education was established in 1971 to plan and coordinate Indiana's system of post-secondary education. The Commission develops long-range plans, reviews budget requests of public post-secondary institutions, and considers the approval of new degree programs.

Indiana has seven public post-secondary institutions. They include six universities, one of which offers only two-year degrees, and a technical college. Indiana University manages seven campuses including the flagship campus in Bloomington and the joint IU-Purdue campus in Indianapolis. Purdue University is the State's land grant institution. It manages four campuses, including a joint IU-Purdue campus in Fort Wayne. Ivy Tech State College offers degree programs on twenty-three campuses. Vincennes University maintains a branch campus in Jasper and several instructional sites in Indianapolis. The State is also home to more than thirty-two independent colleges and universities. In the fall of 2000, Indiana's public campuses enrolled 243,282 students – a 4% increase over fall 1999 enrollment, while the independent campuses enrolled 68,106 – a 1.4% increase over fall 1999 enrollment.

In 1999, the Indiana General Assembly authorized the creation of a new learning partnership in Indiana, the Community College of Indiana. This partnership of Ivy Tech State College and Vincennes University will focus on both non-degree, skill improvement courses as well as two-year degrees, with greater opportunity to transfer course credits to four-year state universities. The new Community College will stress accessible and affordable education, training and support services. Ivy Tech's twenty-three statewide campuses will provide the facilities for the College. Initial pilot sites in Evansville, Gary, Lafayette and Indianapolis opened in the fall of 2000 with very strong enrollment gains.. Current plans are that campuses in Anderson, Lawrenceburg, Marion and Muncie will be added in 2001, with expansion to all Ivy Tech locations over the next six years.

In 1998, nearly 61% of Indiana's high school graduates went on to college, compared to the national average of 57.2%, ranking Indiana 17th in the nation. This is the first time ever that Indiana has exceeded the national average. From 1994 to 1998, the national average experienced little to no growth while Indiana's college-going rate increased by 5.5%, placing the state among the top ten for percentage gains in college attendance of high school graduates.

Fiscal year 2000-01 state operating appropriations for the seven public institutions total $1.1 billion, while estimated tuition and fee income totals $828 million. Also for 2000-01, the General Assembly appropriated $150 million for campus facilities, including debt service and repair and rehabilitation funding for buildings and utilities. The legislature also provided $119 million for the state student assistance program and $60 million for higher education line items.

Public Post-Secondary Institutions
1999-00

Name	Programs Offered	FTE Enrollment	Campus Locations
Ball State University	4-year	17596	Muncie
Indiana State University	4-year	9,857	Terre Haute
Indiana University	4-year	72,045	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis, Fort Wayne
Purdue University	4-year	53,535	West Lafayette, Hammond, Fort Wayne, Westville, Indianapolis
University of Southern Indiana	4-year	7,188	Evansville
Vincennes University	2-year	6,806	Vincennes, Jasper, Indianapolis
Ivy Tech State College	2-year	25,197	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis

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LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of $5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in the applicant's medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals recently affirmed the trial court's decision. The State has sought transfer to the Supreme Court. If ultimately unsuccessful in this litigation, the estimated fiscal impact could exceed $25 million per year in additional State Medicaid expenditures, plus damages incurred in prior years by class members.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed before two trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of $5 million.

A class action by a group of truckers and trucking companies seeks what may be in excess of $5 million in fuel tax refunds attributable to five quarters between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The case is presently pending in the Tax Court.

In September 2000 various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers.

In February 2000 several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately $100 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U.S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. Motions on class certification issues and liability are presently pending before the Tax Court.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back tax for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgement. The potential financial impact of this case is between $5 and $10 million, with additional impact because of the precedent it would have on other gaming operations.

Property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming the denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The case is pending in federal court and is in the earliest stages of litigation.

The State intends to vigorously defend each of the foregoing suits or other claims.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any. See "FINANCIAL RESULTS OF OPERATIONS." With respect to tort claims only, the State's liability is limited to $300,000 for injury to or death of one person in any one occurrence, and $5,000,000 for injury to or death of all persons in that occurrence.

EXHIBIT A-1
TO
APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE STATE OF INDIANA
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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STATE OF INDIANA
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INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 2000. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of $5,421.4 million and $1,047.8 million, respectively, as of and for the year ended June 30, 2000. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. The reports represent 20.7% of special revenue fund assets, 100% of debt service fund assets, 1.5% of capital projects fund assets, 94.5% of enterprise fund assets, 88.8% of internal service fund assets and 100% of proprietary and governmental discretely presented component unit assets.

We conducted our audit in accordance with general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 2000, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 1999 year end.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2000, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

State Board of Accounts

STATE BOARD OF ACCOUNTS

December 20, 2000

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana as of and for the year ended June 30, 2000, and have issued our report thereon dated December 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the single audit report of the State of Indiana.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. The reportable conditions referred to above may be considered material weaknesses.

This report is intended solely for the information and use of the State of Indiana's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1 this report is a part of the public records of the State Board of Accounts and of the office examined.

State Board of Accounts
STATE BOARD OF ACCOUNTS

December 20, 2000

State of Indiana
Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2000

(amounts expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and other debits:						
Assets:						
Cash, cash equivalents and investments - restricted	$ -	$ -	$ -	$ -	$ 56,134	$ 14,360
Cash, cash equivalents and investments - unrestricted	2,725,338	2,642,876	12,914	470,941	284,019	218,394
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
Receivables:						
Taxes	647,551	203,369	-	1,459	-	-
Accounts	-	11,542	-	-	17,652	9,205
Grants	86	90,953	-	174	-	-
Notes	-	-	-	-	-	-
Interest	15,895	23,183	30	1,840	723	906
Contributions	-	-	-	-	-	-
Member loans	-	-	-	-	-	-
Interfund	10,131	7,500	-	25,782	-	-
Due from other funds	159	-	3,386	-	-	7,252
From investment sales	-	-	-	-	-	-
Other	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Advances to other funds	2,408	54,411	-	2,334	885	300
Intergovernmental loans	10,446	326,846	-	7,758	-	-
Student loans	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-
Inventory	-	-	-	-	4,621	10,847
Prepaid expenses/expenditures	1,569	4,401	-	-	569	1,551
Food stamp inventory	-	83,064	-	-	-	-
Construction in progress	-	-	-	-	21,400	62,228
Bond issue costs - net of amortization	-	-	-	-	2,105	10,855
Property, plant and equipment, net	-	-	-	-	215,409	580,646
Other assets	-	-	-	861	10,919	-
Other debits:						
Amount available for debt service fund	-	-	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-	-	-
Total assets and other debits	$ 6,330,617	$ 4,199,094	$ 16,330	$ 858,289	$ 614,416	$ 918,716
Liabilities, equity and other credits:						
Liabilities:						
Accounts payable	$ 123,231	$ 522,758	$ 2	$ 5,225	$ 21,791	$ 15,589
Accrued interest payable	-	-	4,286	-	5,402	37,401
Salaries and benefits payable	40,228	36,235	-	-	2,724	961
Capital lease payable	-	-	-	-	-	94
Pension / health / disability benefits payable	-	-	-	-	-	22,416
Interfund payables	-	10,131	-	-	40,782	-
Due to component unit	-	551,680	-	-	-	-
Due to other funds	2,235	9,228	-	-	-	242
Tax refunds payable	25,696	2	-	-	-	-
Deferred revenue	-	105,425	-	-	3,252	6,415
Accrued prize liability	-	-	-	-	42,421	-
Accrued liability for compensated absences	2,908	2,599	-	-	-	92
Intergovernmental payable	-	-	-	-	-	-
Escheated property liability	-	-	-	-	-	-
Investment purchases payable	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,263	501
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
Obligations under reverse repurchase agreements	-	-	-	-	-	-
Reimbursement agreement obligation	-	-	-	-	-	-
Long term liabilities:						
Construction retention	-	-	-	-	-	3,201
Accrued liability for compensated absences	-	-	-	-	330	1,538
Capital lease payable	-	-	-	-	-	133
Accrued prize liability	-	-	-	-	62,762	-
Advances from other funds	-	56,319	-	865	2,634	500
Revenue bonds / notes payable	-	-	-	-	242,516	753,491
Total liabilities	3,111,332	2,045,306	4,290	353,230	425,877	844,747
Equity and other credits:						
Investment in general fixed assets / plant	-	-	-	-	-	-
Contributed Capital	-	-	-	-	9,308	20,349
Retained earnings:						
Reserved (see note III. G.)	-	-	-	-	60,922	7,397
Unreserved	-	-	-	-	116,309	46,223
Fund balances:						
Reserved (see note III. G.)	333,306	1,399,721	12,040	23,307	-	-
Unreserved:						
Allocated	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Designated for appropriations	372,412	242,736	-	359,099	-	-
Designated for allotments	1,155,600	1,270,274	-	101,846	-	-
Undesignated	1,357,965	(758,943)	-	20,807	-	-
Total equity and other credits	3,219,285	2,153,788	12,040	505,059	188,539	73,969
Total liabilities, equity and other credits	$ 6,330,617	$ 4,199,094	$ 16,330	$ 858,289	$ 614,416	$ 918,716

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Units			Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long Term Debt	(Memorandum Only)	Governmental	Proprietary	Colleges and Universities	(Memorandum Only)
$ -	$ -	$ -	$ 70,494	$ 4,766	$ 276,462	$ -	$ 353,722
18,713,439	-	-	25,067,921	28,205	334,285	2,308,961	27,739,372
1,571,671	-	-	5,588,967	-	297,307	146,403	6,032,677
20,147	-	-	872,526	-	-	-	872,526
42	-	-	38,441	-	-	136,455	174,896
-	-	-	91,213	-	-	-	91,213
-	-	-	-	1,984	-	-	1,984
103,721	-	-	146,297	-	44,074	17,606	207,977
135,605	-	-	135,605	-	-	-	135,605
8,666	-	-	8,666	-	-	-	8,666
7,500	-	-	50,913	-	-	-	50,913
14,610	-	-	25,407	-	-	-	25,407
210,081	-	-	210,081	-	-	-	210,081
-	-	-	-	282	-	3,486	3,768
-	-	-	-	-	551,660	-	551,660
-	-	-	60,318	-	-	-	60,318
269,765	-	-	614,815	-	694,625	-	1,309,440
-	-	-	-	-	194,374	121,885	316,259
-	-	-	-	-	670,393	-	670,393
-	-	-	15,468	-	-	31,372	46,840
17	-	-	8,107	-	-	19,471	27,578
-	-	-	83,064	-	-	-	83,064
-	-	-	83,628	-	-	16,987	100,615
-	-	-	12,960	-	20,411	-	33,371
122	1,564,231	-	2,360,408	-	394	3,121,892	5,482,694
-	-	-	11,780	-	3,177	14,342	29,299
-	-	12,040	12,040	-	-	-	12,040
-	-	806,728	806,728	-	-	-	806,728
$ 21,055,386	$ 1,564,231	$ 818,768	$ 36,375,847	$ 35,237	$ 3,089,162	$ 5,938,860	$ 45,439,106

$ 377,785	$ -	$ -	$ 1,066,381	$ 40	$ 3,117	$ 114,074	$ 1,183,612
-	-	-	47,091	-	29,139	-	76,230
7,970	-	-	88,118	-	-	23,073	111,191
-	-	-	94	-	-	36,377	36,471
-	-	-	22,416	-	-	-	22,416
-	-	-	50,913	-	-	-	50,913
-	-	-	551,660	-	-	-	551,660
13,702	-	-	25,407	-	-	-	25,407
-	-	-	25,698	-	-	-	25,698
-	-	-	115,092	-	-	58,358	173,450
-	-	-	42,421	-	-	-	42,421
-	-	-	5,599	-	-	64,991	70,590
13,111	-	-	13,111	-	-	-	13,111
6,808	-	-	6,808	-	-	-	6,808
303,813	-	-	303,813	-	-	-	303,813
867	-	-	2,631	4,259	1,646	147,784	156,320
1,571,671	-	-	5,588,967	-	297,307	146,403	6,032,677
-	-	-	-	-	-	124,313	124,313
-	-	-	-	167	-	-	167
-	-	-	3,201	-	-	-	3,201
-	-	109,340	111,208	-	-	-	111,208
-	-	4,412	4,545	-	-	-	4,545
-	-	-	62,762	-	-	-	62,762
-	-	-	60,318	-	-	-	60,318
-	-	705,016	1,701,023	-	2,320,945	1,174,948	5,196,916
2,295,727	-	818,768	9,899,277	4,466	2,652,154	1,890,321	14,446,218
-	1,564,231	-	1,564,231	-	-	1,953,243	3,517,474
-	-	-	29,657	-	-	-	29,657
-	-	-	68,319	-	-	-	68,319
-	-	-	164,532	-	437,008	-	601,540
16,455,669	-	-	18,224,245	10,102	-	409,069	18,643,416
-	-	-	-	-	-	842,440	842,440
-	-	-	-	-	-	843,787	843,787
2,805	-	-	977,052	-	-	-	977,052
664,209	-	-	3,191,929	-	-	-	3,191,929
1,636,776	-	-	2,256,605	20,669	-	-	2,277,274
18,759,659	1,564,231	-	26,476,570	30,771	437,008	4,048,539	30,992,888
$ 21,055,386	$ 1,564,231	$ 818,768	$ 36,375,847	$ 35,237	$ 3,089,162	$ 5,938,860	$ 45,439,106

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	Governmental	(Memorandum Only)
Revenues:								
Taxes	$ 8,113,160	$ 2,973,843	$ -	$ 15,311	$ 298,220	$ 11,400,534	$ -	$ 11,400,534
Licenses, permits and franchises	20,306	386,834	-	-	-	407,140	-	407,140
Current service charges	161,836	487,733	-	140	-	649,709	128	649,837
Investment income	386,544	118,184	1,072	41,148	133,725	680,673	1,395	682,068
Sales/rents	761	65,894	-	-	-	66,655	14	66,669
Member contributions	-	-	-	-	52,025	52,025	-	52,025
Grants	9,808	4,731,663	-	8,346	9,599	4,759,416	-	4,759,416
Donations/escheats	-	3,745	-	-	24,022	27,767	-	27,767
Other	8,904	218,191	8	934	-	228,037	-	228,037
Total revenues	8,701,319	8,986,087	1,080	65,879	517,591	18,271,956	1,537	18,273,493
Expenditures:								
Current:								
General government	1,847,518	1,828,575	-	-	2,164	3,678,257	-	3,678,257
Public safety	550,897	439,097	-	-	-	989,994	-	989,994
Health	127,727	170,315	-	-	-	298,042	-	298,042
Welfare	353,440	4,794,555	-	-	4,360	5,152,355	-	5,152,355
Conservation, culture and development	68,381	411,425	-	-	283,641	763,447	3,950	767,397
Education	5,166,636	567,226	-	-	-	5,733,862	-	5,733,862
Transportation	6,982	1,246,870	-	-	-	1,253,852	-	1,253,852
Member withdrawals	-	-	-	-	19,168	19,168	-	19,168
Other	1,083	-	-	-	-	1,083	-	1,083
Capital outlays	-	-	-	178,099	-	178,099	-	178,099
Loss on reimbursement agreement	-	-	-	-	-	-	333	333
Debt service	-	-	55,328	-	-	55,328	-	55,328
Total expenditures	8,122,664	9,458,063	55,328	178,099	309,333	18,123,487	4,283	18,127,770
Excess (deficiency) of revenues over (under) expenditures	578,655	(471,976)	(54,248)	(112,220)	208,258	148,469	(2,746)	145,723
Other financing sources (uses):								
Operating transfers in	1,991,124	4,011,520	55,703	364,262	2,419	6,425,028	-	6,425,028
Operating transfers (out)	(2,779,518)	(3,258,712)	(121)	(264,705)	(31,454)	(6,334,510)	-	(6,334,510)
Operating transfers in – from primary government	-	-	-	-	-	-	13,478	13,478
Operating transfers in – from component unit	-	2,400	-	-	1,724	4,124	-	4,124
Operating transfers (out) – to component unit	(13,478)	-	-	-	-	(13,478)	-	(13,478)
Proceeds from capital leases	1,926	803	-	-	-	2,729	-	2,729
Total other financing sources (uses)	(799,946)	756,011	55,582	99,557	(27,311)	83,893	13,478	97,371
Excess of revenues and other financing sources over (under) expenditures and other uses	(221,291)	284,035	1,334	(12,663)	180,947	232,362	10,732	243,094
Fund balances, July 1, as restated	3,440,576	1,869,753	10,706	517,722	1,941,517	7,780,274	20,039	7,800,313
Fund balances, June 30	$ 3,219,285	$ 2,153,788	$ 12,040	$ 505,059	$ 2,122,464	$ 8,012,636	$ 30,771	$ 8,043,407

The notes to the financial statements are an integral part of this statement.

State of Indiana

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis Variances with GAAP)

General Fund

For the Year Ended June 30, 2000

(amounts expressed in thousands)

	Budget		Actual	Variance
	Original	Final		
Revenues:				
Tax	$ 7,451,408	$ 7,451,408	$ 8,105,120	$ 653,712
Licenses	20,090	20,090	20,306	216
Current service charges	133,139	133,139	161,836	28,697
Investment income	170,000	170,000	229,383	59,383
Sales	-	-	603	603
Grants	67,900	67,900	10,779	(57,121)
Other	2,700	2,700	8,904	6,204
Total revenues	7,845,237	7,845,237	8,536,931	691,694
Expenditures:				
General government	2,343,462	2,140,846	1,689,882	450,964
Public safety	629,880	649,222	554,665	94,557
Health	126,261	136,520	125,677	10,843
Welfare	349,570	392,196	349,002	43,194
Conservation, culture and development	91,075	170,475	67,751	102,724
Education	5,191,074	5,242,266	5,168,314	73,952
Transportation	1,145	11,588	6,023	5,565
Total expenditures	8,732,467	8,743,113	7,961,314	781,799
Excess of revenues over (under) expenditures	(887,230)	(897,876)	575,617	1,473,493
Other financing sources (uses):				
Total other financing sources (uses)	(980,168)	(980,168)	(801,872)	178,296
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,867,398)	$ (1,878,044)	(226,255)	$ 1,651,789
Fund balances July 1, as restated			2,965,833	
Fund balances June 30			$ 2,739,578	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis Variances with GAAP)
Special Revenue Fund Types
For the Year Ended June 30, 2000

(amounts expressed in thousands)

	Budget		Actual	Variance
	Original	Final		
Revenues:				
Tax	$ 2,751,409	$ 2,751,409	$ 2,932,368	$ 180,959
Licenses	365,502	365,502	386,833	21,331
Current service charges	398,245	398,245	492,868	94,623
Investment income	14,282	14,282	24,777	10,495
Sales	12,224	12,224	13,245	1,021
Grants	3,956,615	3,956,615	4,378,950	422,335
Donations	1,898	1,898	3,750	1,852
Other	163,880	163,880	199,039	35,159
Total revenues	7,664,055	7,664,055	8,431,830	767,775
Expenditures:				
General government	1,811,295	1,837,766	1,730,552	107,214
Public safety	483,494	483,395	405,774	77,621
Health	155,599	177,160	164,026	13,134
Welfare	4,786,536	4,787,147	4,535,020	252,127
Conservation, culture and development	464,772	487,111	389,478	97,633
Education	573,365	577,960	567,482	10,478
Transportation	1,235,740	1,251,176	1,244,545	6,631
Total expenditures	9,510,801	9,601,715	9,036,877	564,838
Excess of revenues over (under) expenditures	(1,846,746)	(1,937,660)	(605,047)	1,332,613
Other financing sources (uses):				
Total other financing sources (uses)	621,742	621,742	777,421	155,679
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,225,004)	$ (1,315,918)	172,374	$ 1,488,292
Fund balances July 1, as restated			1,410,988	
Fund balances June 30			$ 1,583,362	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenses and Changes in Retained Earnings (or Equity)
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000
(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Operating revenues:						
Sales/rents/premiums	$ 607,625	$ 52,672	$ -	$ 660,297	$ -	$ 660,297
Toll receipts	85,655	-	-	85,655	-	85,655
Charges for services	-	96,885	-	96,885	-	96,885
Interest on program loans	-	-	6,350	6,350	59,446	65,796
Investment income	-	-	-	-	57,595	57,595
Insurance premiums	-	96,374	-	96,374	-	96,374
Other	1,168	1,209	-	2,377	11,464	13,841
Total operating revenues	694,448	247,140	6,350	947,938	128,505	1,076,443
Cost of sales	408,447	17,098	-	425,545	-	425,545
Gross Margin	286,001	230,042	6,350	522,393	128,505	650,898
Operating expenses:						
General and administrative expense	69,413	70,050	28,443	167,906	27,380	195,286
Claims expense	1,893	-	-	1,893	-	1,893
Health / disability benefit payments	-	100,983	-	100,983	-	100,983
Death settlements	-	554	-	554	-	554
Medical expense reimbursement	-	385	-	385	-	385
Depreciation and amortization	12,061	18,077	-	30,138	3,236	33,374
Other	191	-	-	191	832	1,023
Total operating expenses	83,558	190,049	28,443	302,050	31,448	333,498
Operating income (loss)	202,443	39,993	(22,093)	220,343	97,057	317,400
Nonoperating revenues (expenses):						
Interest and other investment income (expense)	(4,980)	(32,489)	6,564	(30,905)	(99,068)	(129,973)
Gain (loss) on disposition of assets	-	78	-	78	-	78
Other	(350)	24	-	(326)	(1)	(327)
Total nonoperating revenues (expenses)	(5,330)	(32,387)	6,564	(31,153)	(99,069)	(130,222)
Income (loss) before operating transfers	197,113	7,606	(15,529)	189,190	(2,012)	187,178
Operating transfers in	-	19,372	47,087	66,459	-	66,459
Operating transfers (out)	(164,405)	(20,674)	(1,897)	(186,976)	-	(186,976)
Operating transfers (out) - to primary government	-	-	-	-	(4,124)	(4,124)
Net operating transfers	(164,405)	(1,302)	45,190	(120,517)	(4,124)	(124,641)
Net income (loss)	32,708	6,304	29,661	68,673	(6,136)	62,537
Retained earnings/fund balances, July 1, as restated	146,523	47,316	421,430	615,269	443,144	1,058,413
Retained earnings/fund balances, June 30	$ 179,231	$ 53,620	$ 451,091	$ 683,942	$ 437,008	$ 1,120,950

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Cash flows from operating activities:						
Operating income (loss)	$ 202,443	$ 39,993	$ (22,093)	$ 220,343	$ 97,057	$ 317,400
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/amortization expense	12,061	18,077	-	30,138	3,236	33,374
Other provisions	(7,335)	(1,712)	-	(9,047)	(220)	(9,267)
(Increase) decrease in accounts receivable	14,143	(1,722)	-	12,421	-	12,421
(Increase) decrease in interest receivable	-	-	2,262	2,262	(4,255)	(1,993)
(Increase) decrease in intergovernmental loans	-	-	-	-	(306,165)	(306,165)
(Increase) decrease in student loans	-	-	-	-	52,495	52,495
(Increase) decrease in mortgage loans	-	-	-	-	(99,500)	(99,500)
(Increase) decrease in due from other funds	-	1,771	-	1,771	-	1,771
(Increase) decrease in inventory	(241)	1,154	-	913	-	913
(Increase) decrease in prepaid expenses	(50)	1,001	-	951	-	951
(Increase) decrease in other assets	-	-	-	-	167	167
Increase (decrease) in benefits payable	-	12,648	-	12,648	-	12,648
Increase (decrease) in accounts payable	(619)	(657)	-	(1,276)	1,052	(224)
Increase (decrease) in accrued interest payable	-	-	-	-	1,773	1,773
Increase (decrease) in deferred revenue	154	(398)	-	(244)	(15)	(259)
Increase (decrease) in salaries payable	(1,401)	175	-	(1,226)	-	(1,226)
Increase (decrease) in compensated absences	-	75	-	75	-	75
Increase (decrease) in due to other funds	-	(131)	-	(131)	-	(131)
Increase (decrease) in accrued prize liability	(9,037)	-	-	(9,037)	-	(9,037)
Increase (decrease) in compensated absences	47	-	-	47	-	47
Increase (decrease) in other liabilities	(467)	(140)	-	(607)	456	(151)
Net cash provided (used) by operating activities	209,698	70,134	(19,831)	260,001	(253,919)	6,082
Cash flows from noncapital financing activities:						
Operating transfers in	-	19,372	47,087	66,459	-	66,459
Operating transfers (out)	(172,360)	(20,674)	(1,897)	(194,931)	(4,124)	(199,055)
Issuance of intergovernmental loans	-	-	(60,382)	(60,382)	-	(60,382)
Proceeds from intergovernmental loans	-	-	90,214	90,214	-	90,214
Interest, debt issue costs	-	-	-	-	(120,541)	(120,541)
Proceeds from issuance of debt	-	-	-	-	852,077	852,077
Principal payments - bonds / notes	-	-	-	-	(651,475)	(651,475)
Net cash provided (used) by noncapital financing activities	(172,360)	(1,302)	75,022	(98,640)	75,937	(22,703)
Cash flows from capital and related financing activities						
Acquisition/construction of fixed assets	(30,670)	(69,856)	-	(100,526)	-	(100,526)
Proceeds from sale of fixed assets	-	325	-	325	-	325
Proceeds from issuance of long-term debt	500	256,293	-	256,793	-	256,793
Principal payments -- capital leases	(362)	(224)	-	(586)	-	(586)
Principal payments -- bonds/notes	(10,253)	(143,120)	-	(153,373)	-	(153,373)
Interest, debt issue costs	(16,244)	(35,933)	-	(52,177)	-	(52,177)
Net cash provided (used) by capital and related financing activities	(57,029)	7,485	-	(49,544)	-	(49,544)
Cash flows from investing activities:						
Proceeds from sale of investments	816,041	111,860	439,066	1,366,967	564,241	1,931,208
Purchase of investments	(729,730)	(176,070)	(483,172)	(1,388,972)	(359,173)	(1,748,145)
Interest income on investments	14,730	4,352	6,564	25,646	18,442	44,088
Net cash provided (used) by investing activities	101,041	(59,858)	(37,542)	3,641	223,510	227,151
Net increase (decrease) in cash and cash equivalents	81,350	16,459	17,649	115,458	45,528	160,986
Cash and cash equivalents, July 1	97,353	47,950	44,016	189,319	100,630	289,949
Cash and cash equivalents, June 30	$ 178,703	$ 64,409	$ 61,665	$ 304,777	$ 146,158	$ 450,935
Reconciliation of cash, cash equivalents and investments:						
Cash and cash equivalents at end of year	$ 178,703	$ 64,409	$ 61,665	$ 304,777	$ 146,158	$ 450,935
Investments	161,450	168,345	119,652	449,447	466,589	916,036
Other funds presented on balance sheet (trust and agency)	-	-	18,532,122	18,532,122	-	18,532,122
Cash, cash equivalents and investments per balance sheet	$ 340,153	$ 232,754	$ 18,713,439	$ 19,286,346	$ 612,747	$ 19,899,093
Noncash investing, capital and financing activities:						
Reduction of advance	184	-	-	184	-	184

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Plan Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2000
(amounts expressed in thousands)

Additions:	
Member contributions	$ 240,479
Employer contributions	931,894
Net investment income	1,063,839
Operating transfers in	32,804
Other	1,675
Total additions	2,270,691
Deductions:	
Pension benefits	837,142
Disability and other benefits	23,428
Refunds of contributions and interest	36,300
Administrative	13,000
Operating transfers out	2,805
Other	23
Total deductions	912,698
Net increase (decrease)	1,357,993
Net assets held in trust for pension benefits, July 1, as restated	14,828,111
Net assets held in trust for pension benefits, June 30	**$ 16,186,104**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Fund Balances
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2000
(amounts expressed in thousands)

	Current funds			
	Unrestricted	Restricted	Total current funds	Loan funds
Revenue and other additions:				
Current fund revenues	$ 2,384,428	$ 2,978	$ 2,387,406	$ -
Grants, gifts and contracts	3,782	614,055	617,837	119,731
Appropriations	98,825	92,429	191,254	-
Additions to plant and facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Endowment and investment income	4,815	11,765	16,580	2,544
Bond proceeds	-	-	-	-
Sales and services	-	13,763	13,763	192
Auxiliary services	459,632	-	459,632	-
Other additions	731	14,250	14,981	677
Total revenues and other additions	2,952,213	749,240	3,701,453	123,144
Expenditures and other deductions:				
Current fund expenditures	2,366,912	442,979	2,809,891	-
Restricted fund expenditures	-	264,492	264,492	-
Indirect costs recovered	-	30,637	30,637	-
Direct student loans issued	-	-	-	114,659
Loan cancellations and administration	-	-	-	4,931
Administration	-	-	-	405
Expended for plant facilities and disposals	-	-	-	-
Bond issues and issuance costs, retirements	-	-	-	-
Debt service requirements	-	-	-	-
Depreciation and amortization	-	-	-	-
Other deductions	676	1,475	2,151	506
Auxiliary services	317,538	-	317,538	-
Total expenditures and deductions	2,685,126	739,583	3,424,709	120,501
Excess of revenues and other additions over (under) expenditures and other deductions	267,087	9,657	276,744	2,643
Transfers from (to) other funds:				
Mandatory transfers	(140,261)	5,804	(134,457)	32
Non-mandatory transfers	(93,480)	11,962	(81,518)	430
Total transfers from / to other funds	(233,741)	17,766	(215,975)	462
Net increase (decrease) for the year	33,346	27,423	60,769	3,105
Fund balance, July 1, as restated	528,115	128,868	656,983	56,685
Fund balance, June 30	$ 561,461	$ 156,291	$ 717,752	$ 59,790

The notes to the financial statements are an integral part of this statement.

	Plant funds					
Endowments and similar funds	Unexpended	Renewal and replacement	Retirement of indebtedness	Investment in plant	Total plant funds	Total colleges and universities
$ -	$ -	$ -	$ 2,864	$ -	$ 2,864	$ 2,390,270
17,127	22,520	207	373	1,711	24,811	779,506
-	60,580	3,829	-	-	64,409	255,663
-	8,290	-	-	329,274	337,564	337,564
-	2,361	-	-	110,893	113,254	113,254
53,133	16,151	3,131	1,517	-	20,799	93,056
-	46,180	-	-	-	46,180	46,180
-	-	-	-	-	-	13,955
-	-	-	-	-	-	459,632
475	19,914	807	9,360	41	30,122	46,255
70,735	175,996	7,974	14,114	441,919	640,003	4,535,335
-	-	-	-	-	-	2,809,891
-	-	-	-	-	-	264,492
-	-	-	-	-	-	30,637
-	-	-	-	-	-	114,659
-	-	-	-	-	-	4,931
1,684	11,854	6,638	591	-	19,083	21,172
-	286,340	27,935	-	11,061	325,336	325,336
-	142	-	49,343	69,827	119,312	119,312
-	2,296	-	88,673	-	90,969	90,969
-	-	-	-	211,411	211,411	211,411
11,957	1,403	215	257	41	1,916	16,530
-	-	-	-	-	-	317,538
13,641	302,035	34,788	138,864	292,340	768,027	4,326,878
57,094	(126,039)	(26,814)	(124,750)	149,579	(128,024)	208,457
(89)	(696)	3,960	130,345	-	133,609	(905)
(15,720)	116,813	19,197	(6,754)	(31,687)	97,569	761
(15,809)	116,117	23,157	123,591	(31,687)	231,178	(144)
41,285	(9,922)	(3,657)	(1,159)	117,892	103,154	208,313
797,754	170,123	238,591	38,557	1,881,533	2,328,804	3,840,226
$ 839,039	$ 160,201	$ 234,934	$ 37,398	$ 1,999,425	$ 2,431,958	$ 4,048,539

State of Indiana
Combined Statement of Current Fund Revenues, Expenditures and Other Changes
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Current funds		
	Unrestricted	Restricted	Total current funds
Revenues:			
Student tuition and fees	$ 908,947	$ 2,978	$ 911,925
Governmental appropriations	1,167,091	66,801	1,233,892
Federal, state and local grants and contracts	49,989	498,517	548,506
Auxiliary services	486,722	-	486,722
Sales and services	123,101	13,966	137,067
Investment and endowment income	50,050	10,801	60,851
Other gifts and grants	1,762	46,418	48,180
Other revenue	163,822	15,910	179,732
Total revenues	2,951,484	655,391	3,606,875
Expenditures and mandatory transfers:			
Educational and General:			
Instruction and departmental research activities	1,129,666	74,680	1,204,346
Research	58,384	235,701	294,085
Academic support	244,105	27,293	271,398
Operation and maintenance of plant	237,622	178	237,800
Student Aid, Scholarships and fellowships	84,763	153,431	238,194
Public service	51,914	171,589	223,503
Student services	108,148	3,435	111,583
Administrative and institutional support	241,190	1,630	242,820
Other expenditures	19,683	1,131	20,814
Total educational and general	2,175,475	669,068	2,844,543
Auxiliary enterprises:			
Expenditures	508,977	171	509,148
Mandatory transfers	131,838	(5,804)	126,034
Total current fund expenditures and mandatory transfers	2,816,290	663,435	3,479,725
Other transfers and additions (deductions):			
Excess (deficit) of restricted receipts over transfers to revenues	-	23,652	23,652
Transfers from (to) other funds	(101,848)	11,815	(90,033)
Total other transfers and additions (deductions)	(101,848)	35,467	(66,381)
Increase (decrease) in fund balance	$ 33,346	$ 27,423	$ 60,769

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA

Notes to the Financial Statements and Required Supplementary Information
June 30, 2000

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2000
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in three separate columns, one column for the governmental fund type, one for proprietary fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 1999 year end.

Blended Component Units.

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the governor to purchase education loans in the secondary market. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the $100,000 Federal

Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities. Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority
One North Capital Suite 320
Indianapolis, IN 46204

Recreational Development
Commission
Government Center South, W256
402 W. Washington Street
Indianapolis, IN 46204

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

Indiana Development Finance
Authority
One North Capitol, Suite 320
Indianapolis, IN 46204-2226

Secondary Market for Education Loans, Inc.
8425 Woodfield Crossing Boulevard
Suite 401
Indianapolis, IN 46204

Board for Public Depositories
101 W. Washington St., Suite 1301E
Indianapolis, IN 46204

Indiana Bond Bank
2980 Market Tower
10 West Market St.
Indianapolis, IN 46204

Indiana Housing Finance Authority
115 West Washington Street
Suite 1350, South Tower
Indianapolis, IN 46204

Accounting Services
1062 Freehafer Hall
Purdue University
West Lafayette, IN 47907-1062

Richard W. Schmidt
Vice President - Business Affairs
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President
and Chief Financial Officer
Bryan Hall, Rm. 204
Indiana University
Bloomington, IN 47405-1202

Mark Husk
Director of Budgeting and Accounting
Indiana Vocational Technical
College
Indianapolis, IN 46206-1763

Phillip Rath
Vice President-Financial
Services
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 103A
2600 University Avenue
Ball State University
Muncie, IN 47305

Office of the Vice President
for Planning and Budgets
Parsons Hall, RM. 223
Indiana State University
Terre Haute, IN 47809

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes collected within 30 days after the end of the fiscal year are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and assistance awards are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value in accordance with GASB Statements 31 and 28. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value in accordance with GASB Statements 25 and 28, respectively.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public

Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as a special revenue fund.

2. *Receivables and Payables*

Certain taxes collected during the month of July are accrued. These taxes include employee withholding and other individual income taxes, corporate income tax, sales tax, alcoholic beverage tax, motor fuel and motor carrier surcharge tax, inheritance tax, financial institution tax, and employer contributions to the Unemployment Compensation fund.

Due dates are as follows:

Sales, alcoholic beverage, gasoline and special fuel tax -- due by the 20th day after the end of the month collected.

Corporate, motor fuel and motor carrier surcharge tax – due on or before the last day of the month immediately following each quarter of the calendar year.

Employee withholding tax – depending on the amount of total withholding, due by the 20th day after the end of the month or quarterly.

Individual income tax -- estimates due by the 15th of the month immediately following each quarter or the calendar year.

Inheritance tax – due eighteen months after the decedent's date of death.

Financial institutions tax – due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.

Unemployment employers' contributions – shall immediately become due and payable on the basis of wages paid or payable.

Tax refunds paid during the month of July are accrued as tax refunds payable as they are paid from current financial resources. These include individual, corporate and sales tax.

The State of Indiana does not collect property taxes, which are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. *Interfund transactions*

The State has the following types of interfund transactions:

Quasi-external Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers.

The types of assets and liabilities resulting from these transactions are:

Advances from / to - These are balances arising from the long-term portion of interfund transactions, including loans.

Interfund receivables / payables - These are balances arising from the short-term portion of interfund transactions.

Due from / to - These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

4. *Inventories and Prepaid Items*

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. *Restricted Assets*

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

State Office Building Commission - designated for construction projects or the liquidation of revenue bonds payable.
Recreational Development Commission - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.
State Lottery Commission - reserved for the prize pool of the Multi-State Lottery Association.
Toll Roads - held for future debt service, transportation improvements and construction.
Indiana Housing Finance Authority - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.
Indiana Bond Bank -- restricted to repayment of bonds and notes payable.

6. *Fixed Assets*

Fixed assets used in governmental fund types with a cost of $5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

7. *Compensated Absences*

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

8. Long-Term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Advances - established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes-- established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

10. Memorandum Only -- Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	$ (226,255)	172,374
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:		
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	2,181	(17,156)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	2,783	5,898
Funds not subject to legally adopted budget	-	122,919
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	$ (221,291)	$ 284,035

C. Deficit Fund Balance/Retained Earnings

At June 30, 2000, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of $56.8 million. $53.2 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the $53.2 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

Fund	Overdraft from pooled cash	Accrual deficits
Special revenue funds:		
State and Federal Welfare Assistance	-	(3,104)
Medicaid Assistance	(5,719)	(208,135)
Health and Envimomental Programs	-	(1,413)
Internal service funds:		
State Office Building Commission	-	(1,152)
Recreational Development Commission	-	(160)
State Police Benefit Fund	-	(1,262)
State Employee Disability Fund	-	(2,533)
State Employee Health Insurance Fund		(1,743)
Expendable trust funds:		
Abandoned Property Fund	-	(3,206)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section 1(A) account for $379.7 million of the primary government's total investments included in these totals.

Primary Government

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 41,511	$ 140,668	$ 136,978	$ 319,157
Corporate debt/equity securities				
Not on securities loan	10,616,949	159,110	424,539	11,200,598
On securities loan	-	134,754	49	134,803
Foreign bonds				
Not on securities loan	94,108	-	-	94,108
Repurchase agreements				
Not on securities loan	1,018	270,587	621,232	892,837
On securities loan	-	242,684	-	242,684
US Treasury & agency obligations				
Not on securities loan	1,665,826	586,501	382,355	2,634,682
On securities loan	19,932	153,035	430,706	603,673
Mortgage securities				
Not on securities loan	1,287,990	1,781	20,000	1,309,771
On securities loan	-	10,000	180	10,180
Totals	$ 13,727,334	$ 1,699,120	$ 2,016,039	17,442,493
Investments - not categorized				
Investments held by broker-dealers under securities loans				
Equity securities				443,386
Corporate bonds				178,698
US Treasury & agency obligations				4,807,282
Foreign bonds				9,753
Mortgage securities				7,289
Securities lending S-T cash collateral investment pool				3,845,928
Mutual funds				948,369
Annuity/investment contracts				502,118
Other				2,309
Total primary government				$ 28,187,625

The categories of investments for the Significant Discretely Presented Component Units is as follows:

Significant Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 27,882	$ -	$ -	$ 27,882
Corporate debt/equity securities				
Not on securities loan	352,298	4,084	-	356,382
Repurchase agreements				
Not on securities loan	30,200	2,378	-	32,578
On securities loan	122,555	-	-	122,555
US Treasury & agency obligations				
Not on securities loan	584,957	23,411	776	609,144
On securities loan	2,416	-	-	2,416
Totals	$ 1,120,308	$ 29,873	$ 776	1,150,957
Investments--Not Categorized				
Guaranteed investment contracts and other				136,377
Investments held by broker-dealers under securities loans				
Corporate bonds				12,187
US Treasury & agency obligations				23,360
Securities lending S-T cash collateral investment pool				36,315
Securities lending S-T non-cash collateral investment pool				103,425
Total significant discretely presented component units				$ 1,462,621

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund which allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2000 is as follows:

Due From and Due To Other Funds

	Due from other funds	Due to other funds
General fund:		
Internal service funds:		
Institutional industries	$ 159	$ 1,322
Administrative services revolving fund	-	913
Total general fund	159	2,235
Special revenue funds:		
Debt service funds:		
Transportation Finance Authority:		
Aviation Technology bonds	-	318
Airport Facilities bonds	-	3,068
Internal service funds:		
Institutional industries	-	674
Administrative services revolving fund	-	4,217
Pension trust funds		
Public Employees Retirement Fund	-	951
Total special revenue funds	-	9,228
Debt service funds:		
Special revenue funds:		
Other	3,386	-
Total debt service funds	3,386	-
Internal service funds:		
General fund	2,235	159
Special revenue funds:		
County welfare administration	1,064	-
Motor Vehicle Highway Fund	1,145	8
State and Federal Welfare Assistance	6	-
Bureau of Motor Vehicles Commission	34	-
Health and environmental programs	54	-
State Highway Department	138	-
Patients Compensation	1	-
Other	2,448	-

	Due from other funds	Due to other funds
Internal service funds (continued):		
Capital projects funds:		
Post War Construction	1	-
Expendable trust funds:		
Abandoned Property Fund	1	-
Internal service funds:		
Administrative Services Revolving	3	3
Institutional Industries	3	3
Pension trust funds:		
Public Employees Retirement Fund	40	69
State Teachers Retirement Fund	79	-
Total internal service funds	7,252	242
Trust and agency funds:		
Special revenue funds		
Pension Relief	885	-
Other	66	-
Internal service funds:		
Institutional Industries	8	-
Administrative services revolving fund	-	120
State Employee Death Benefit	69	-
Pension trust:		
Public Employees' Retirement Fund	4,497	9,085
Teachers' Retirement Fund	4,951	4,497
1977 police officers' and firefighters'	2,993	-
Excise Police and Conservation Officers	335	-
Judges Retirement	452	-
Prosecuting Attorneys' Retirement	170	-
Defined Benefit	184	-
Total trust and agency funds	14,610	13,702
Total due from / to	**$ 25,407**	**$ 25,407**

Component units

	Due from primary government	Due to component unit
Special revenue funds:		
Discretely presented component units:		
Indiana Bond Bank	$ -	$ 551,660
Total special revenue funds	-	551,660

	Due from primary government	Due to component unit
Discretely presented component units:		
Special revenue funds:		
State Revolving Fund	551,660	-
Total discretely presented component units	551,660	-
Total due from / to	**$ 551,660**	**$ 551,660**

The composition of interfund balances as of June 30, 2000 is as follows: (continued)

Advances To and Advances From Other Funds

	Advances to other funds	Advances from other funds
General fund:		
Special revenue funds:		
Other	$ 2,408	$ -
Total general fund	2,408	-
Special revenue funds:		
General fund	-	2,408
Special revenue funds:		
Motor Vehicle Highway Fund	53,213	-
Bureau of Motor Vehicles Commission	-	53,213
Other	698	698
Internal service funds:		
Recreational Development Commission	500	-
Total special revenue funds	54,411	56,319
Capital projects funds:		
Enterprise funds:		
Toll bridges	2,334	865
Total capital projects funds	2,334	865

	Advances to other funds	Advances from other funds
Enterprise funds:		
Capital projects funds:		
Interstate Bridge Fund	865	2,334
Internal service funds:		
Recreational Development Commission	-	300
Total enterprise funds	865	2,634
Internal service funds:		
Special revenue funds:		
Other	-	500
Enterprise funds:		
Inns and concessions	300	-
Total internal service funds	300	500
Total advances	**$ 60,318**	**$ 60,318**

Interfund receivables and payables

	Interfund receivable	Interfund payable
General fund:		
Special revenue funds:		
Medicaid Assistance	$ 5,719	$ -
Federal Food Stamp Program	4,412	-
Total general fund	10,131	-
Special revenue funds:		
General fund	-	10,131
Enterprise funds:		
State Lottery Commission	7,500	-
Total special revenue funds	7,500	10,131
Capital projects funds:		
Enterprise funds:		
State Lottery Commission	25,782	-
Total capital projects funds	25,782	-

	Interfund receivable	Interfund payable
Enterprise funds:		
Special revenue funds:		
Pension Relief Fund	-	7,500
Capital projects funds:		
Build Indiana Fund	-	25,782
Pension trust funds:		
Teachers' Retirement Fund	-	7,500
Total enterprise funds	-	40,782
Trust and agency funds:		
Enterprise funds:		
State Lottery Commission	7,500	-
Total trust and agency funds	7,500	-
Total interfund receivable / payable	**$ 50,913**	**$ 50,913**

A summary of interfund operating transfers for the year ended June 30, 2000 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) to primary government	Operating transfers in - from component units	Operating transfers (out) to component units	Net transfers
Governmental funds:							
General fund	$ 1,991,124	$ (2,779,518)	$ -	$ -	$ -	$ (13,478)	$ (801,872)
Special revenue funds	4,011,520	(3,258,712)	-	-	2,400	-	755,208
Debt service funds	55,703	(121)	-	-	-	-	55,582
Capital projects funds	364,262	(264,705)	-	-	-	-	99,557
Proprietary funds:							
Enterprise Funds	-	(164,405)	-	-	-	-	(164,405)
Internal Service Funds	19,372	(20,674)	-	-	-	-	(1,302)
Trust and agency funds:			-				
Expendable Trust and Agency	2,419	(31,454)	-	-	1,724	-	(27,311)
Non expendable Trust	47,087	(1,897)	-	-	-	-	45,190
Pension Trust	32,804	(2,805)	-	-	-	-	29,999
Discretely presented component units:							
Governmental	-	-	13,478	-	-	-	13,478
Proprietary	-	-	-	(4,124)	-	-	(4,124)
	$ 6,524,291	$ (6,524,291)	$ 13,478	$ (4,124)	$ 4,124	$ (13,478)	$ -

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General fund	Special revenue funds	Capital projects funds	Expendable trust	Total
Sales taxes	$ 179,996	$ 122,186	$ -	$ -	$ 302,182
Individual income taxes	388,117	-	-	-	388,117
Corporate taxes	47,287	-	-	-	47,287
Motor fuel taxes	-	58,791	-	-	58,791
Alcoholic beverage taxes	1,281	-	1,459	-	2,740
Motor carrier surcharge taxes	-	6,765	-	-	6,765
Inheritance taxes	30,870	-	-	-	30,870
Financial institution taxes	-	15,627	-	-	15,627
Unemployment - employers' contributions	-	-	-	20,147	20,147
Total taxes receivable	$ 647,551	$ 203,369	$ 1,459	$ 20,147	$ 872,526
Tax refunds payable	$ 25,696	$ 2	$ -	$ -	$ 25,698

D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 2000, was as follows. Figures include assets with an individual cost of $5,000 or more. Infrastructure assets are not included.

	Balance, July 1, As restated	Additions	Deletions	Balance, June 30
Land	$ 124,072	$ 1,682	$ 173	$ 125,581
Buildings and improvements	1,052,743	11,047	9,254	1,054,536
Furniture, machinery, and equipment	375,156	31,669	22,711	384,114
Total general fixed assets	$ 1,551,971	$ 44,398	$ 32,138	$ 1,564,231

The following is a summary of proprietary fund type fixed assets at June 30, 2000. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise funds	Internal service funds
Buildings, land and improvements	$ 116,257	$ 689,507
Infrastructure	460,061	-
Furniture, machinery, and equipment	45,498	12,410
less: accumulated depreciation	(406,407)	(121,271)
Construction in progress	21,400	62,228
Total fixed assets	**$ 236,809**	**$ 642,874**

Fixed assets of the significant discretely presented component units include $2,697 million for Indiana University, less accumulated depreciation of $1,309 million; $1,573 million for Purdue University, less accumulated depreciation of $714 million.

E. Leases

Operating Leases
The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $5,000 or more were $37.2 million for the year ended June 30, 2000. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases
The State has entered into various lease agreements with aggregate payments of $5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2000 and the assets acquired through capital lease during the fiscal year were as follows:

Future minimum lease payments

		Capital leases	
Year ending June 30,	Operating leases	General Long-Term Debt Account Group	Proprietary funds
2001	$ 31,672	$ 1,777	$ 106
2002	25,229	1,355	69
2003	19,521	1,030	56
2004	12,614	467	16
2005	8,501	250	-
Thereafter	59,477	-	-
Total minimum lease payments (excluding executory costs)	**$ 157,014**	**$ 4,879**	**$ 247**
Less:			
Amount representing interest		(467)	(20)
Present value of future minimum lease payments		**$ 4,412**	**$ 227**

Assets acquired through capital lease

	General Long-Term Debt Account Group	Proprietary funds
Machinery and equipment	8,063	3,652
less accumulated depreciation	-	(3,432)
	$ 8,063	**$ 220**

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $1.6 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $44.1 million, of which $12.2 million represents interest; Indiana University's liability for capital leases is $2.0 million , of which $.3 million represents interest.

Indiana University has future obligations under operating leases of $7.2 million.

F. Long-Term Debt

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E) and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

General Long-Term Debt Account Group:

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On March 26, 1993, the Authority refunded a portion of their 1988A & B Series Bonds. The amount of defeased debt still outstanding, but removed from the General Long-Term Debt Account Group as of June 30, 2000, was $93.6 million.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of $27,110,000 with interest rates from 3.85% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2000, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $24.8 million.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of $137.7 million with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2000 was $127 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A – On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of $11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2000, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	$ 100,565	$ 60,697	$ 51,922	$ 109,340
Revenue bond debt	719,812	3,109	17,905	705,016
Capital leases	3,337	2,729	1,654	4,412
Totals	$ 823,714	$ 66,535	$ 71,481	$ 818,768

Proprietary Funds:

Indiana State Office Building Commission – The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued $178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of $93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2000, the Commission had a total of $275.9 million defeased bonds outstanding.

On February 18, 1999, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to $150 million of commercial paper to provide interim financing for the acquisition and construction of certain facilities. Outstanding borrowings under this facility at June 30, 2000 were $123 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rate in effect at June 30, 2000 was 4.4%.

On June 1, 2000 the Commission issued the Series 2000 B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990 D Bonds. The 2000 B Bonds bear interest that fluctuates based on the market rate, not to exceed 10% per annum. The net proceeds of $42.7 million were used to purchase U.S. Government securities. These securities, plus $6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1999 D Bonds. While the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

Recreational Development Commission – The Recreational Development Commission was created in 1973 by an Act of the General Assembly which is now I.C 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued $6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2000, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $214.1 million.

During March 1987, ITFA issued $184.7 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987 to provide for the early redemption of an aggregate of $144.2 million of the Series 1985 bonds. At June 30, 2000, the principal amount of the Series 1985 bonds, which have been defeased in substance, was $144.2 million.

During October 1993, ITFA issued $76 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding 1985 Series. At June 30, 2000, the principal amount of defeased debt outstanding was $66.9 million.

During October 1996, ITFA issued $134.8 million of Series 1996 Revenue Refunding Bonds with interest rates from 3.9% to 6.5%. The proceeds were placed in trust for the purpose of generating resources for future debt service payments on the Series 1987 Bonds. At June 30, 2000, the principal amount of defeased debt outstanding was $127.1 million.

Revenue bonds outstanding at June 30, 2000 (less unamortized discount of $19.6 million) are as follows.

	Interest rates	Amount
General Long-Term Debt Account Group		
ITFA Highway Revenue Bonds	4.25% - 7.25%	$ 471,776
ITFA Airport Facilities Bonds	4.50% - 6.50%	223,220
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	10,020
		$ 705,016
Proprietary funds:		
Indiana State Office Building Commission	2.75% - 10.00%	$ 606,094
Recreational Development Commission	3.60% - 6.13%	24,168
ITFA Toll Roads	3.90% - 9.50%	242,053
		$ 872,315

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2000, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2000, the accrued prize liability was $105.2 million including $42.4 million in current prize liability and $62.8 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including $922.0 million of interest, are as follows:

Fiscal year ending June 30,	General Long-Term Debt Account Group	Proprietary funds	Total
2001	$ 55,729	$ 75,898	$ 131,627
2002	59,850	86,347	146,197
2003	60,220	93,289	153,509
2004	60,598	92,902	153,500
2005	60,363	92,245	152,608
Thereafter	799,455	1,100,577	1,900,032
Total	$ 1,096,215	$ 1,541,258	$ 2,637,473

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Development Finance Authority – The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $28.7 million as of September 1, 2000. Debt service reserve funds aggregating $3.99 million are currently held in trust and may be available to reduce the contingent obligation

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of $1,273 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 1999 was $793 million.

During 1993, the Authority used three bank loans to refinance or redeem bonds in the 1983A, B, and C Series and the 1984A and B Series Single Family Mortgage Indenture Series. The principal amount of these loans totaled $31.8 million. The Authority repaid the 1983A and B bank loan during 1998 and the 1983C and 1984A and B bank loans during 1999.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The principal amount of this loan totaled $12.6 million as of December 31, 1999.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of $428,100. This transaction resulted in deferred debt issuance cost of $162,469.

In December 1999, the Multi-Unit Mortgage Program Fund issued 1999 Bond Series A and B with a face value of $18.2 million and interest rates varying from 5.40% to 6.88%. The proceeds of the bonds are currently being used to finance the acquisition and rehabilitation of five HUD 236 properties located throughout the state of Indiana.

During 1999 the Single Family Mortgage Program Fund issued 1999 Bond Series with a face value of $162.6 million and interest rates varying from 3.90% to 7.09%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed $35.0 million during 1999 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.408%

During 1999, the Multi-Unit Mortgage Program Fund redeemed the remaining bonds on the 1985 Series A, through an optional redemption. The borrower in this series opted to prepay the mortgage loans. The terms of the mortgage note required the borrower to pay the outstanding principal of the bonds plus accrued interest. As the total outstanding principal and accrued interest exceeded the remaining balance of the mortgage loan, the Authority recognized $1.5 million in gain from early extinguishment of the bonds. This transaction resulted in deferred debt issuance cost and original issuance discount of $211,750 and $70,328 respectively.

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2000 was $1,321 million with interest rates ranging from 3.10% to 7.40%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $27.6 million.

Special Program Bonds Series 1985A, 1989A, 1989B, 1991B and 1991A are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $98 million at June 30, 2000.

In July, 1999 the Bond Bank issued Advanced Funding Program Series AF 1999 B bonds with a face amount of $8.0 million and an interest rate of 3.54%. In February, 2000 the Bond bank issued Advanced Funding Program Series AF 2000 A bonds with a face amount of $364.8 million and an interest rate of 4.75%.

In January, 2000 the Bond Bank issued Special Program Bonds Series 2000 A with a face amount of $64.4 million at interest rates varying from 4.45% to 6.50%.

In September, 1999 the Bond Bank issued State Revolving Series 1999 bonds with a face amount of 7.0 million and an interest rate of 5.0%. In April 2000 the Bond Bank issued State Revolving Series 2000 A with a face amount of $143.6 million at interest rates varying from 4.500% to 5.875%.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

In February 2000, the County of St. Joseph Economic Development District prepaid its Tax Increment Financing Program Bonds of 1991, Series A-1 and A-2 (the 1991 Obligations), which solely supported the Bond Bank's Series 1991A Bonds. The Bond Bank used the proceeds from the prepayment of the 1991 Obligations to purchase U.S. Government obligations which were placed in an irrevocable trust for the sole purpose of defeasing the Series 1991A Bonds. As a result, the investments held in the irrevocable trust and the Series 1991A Bonds are not recorded in the accompanying financial statements. The amount of Series 1991A Bonds considered defeased was $27,995,000 at June 30, 2000.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2000 was $540.4 million with interest rates ranging from 4.0% to 6.6%.

On November 1, 1999, the university issued a bond anticipation note (BAN) in the aggregate principal amount of $1.7 million to fund certain costs associated with the acquisition, construction, and equipping of a new parking garage on the Kokomo campus, providing 380 new parking spaces. The interest rate was 4.55%.

On December 8, 1999, the university issued Indiana University Student Fee Bonds, Series M, in the amount of $47.9 million. The purpose of the issue was to provide partial financing for the Graduate School of Business building on the Bloomington campus and the School of Law building on the Indianapolis campus; and the financing of the renovation of the existing Law School on the Indianapolis campus for use as a facility for ceramics and sculpture programs of the Herron School of Art and the expansion/renovation of the Life Sciences building and the Physical Sciences Building on the Southeast campus. The true interest cost was 5.517%.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was $78.2 million.

Purdue University
The outstanding long-term bonded indebtedness at June 30, 2000 was $287.6 million at 2.6% to 6.5% for Purdue University.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was $149.9 million.

G. Equity Reserves

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition Support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
Governmental funds:								
General Fund	$ 55,454	$ 265,000	$ -	$ 12,854	$ -	$ -	$ -	$ 333,308
Special revenue funds	1,018,464	-	-	381,257	-	-	-	1,399,721
Debt service funds	-	-	-	-	12,040	-	-	12,040
Capital projects funds	13,215	-	-	10,092	-	-	-	23,307
Proprietary funds:								
Enterprise funds	-	-	-	865	-	60,057	-	60,922
Internal service funds	-	-	-	300	-	7,097	-	7,397
Trust and agency funds:								
Non-expendable trust funds	-	-	-	269,765	-	-	-	269,765
Pension trust funds	-	-	16,186,104	-	-	-	-	16,186,104
Discretely presented component units:								
Governmental	10,102	-	-	-	-	-	-	10,102
Colleges and universities	-	-	-	-	-	-	409,069	409,069
Total	$ 1,097,235	$ 265,000	$ 16,186,104	$ 675,133	$ 12,040	$ 67,154	$ 409,069	$ 18,711,735

H. Contributed Capital

There were no changes to contributed capital. The balances were as follows:

	Enterprise Funds	Internal Service Funds			
	Inns and concessions	Institutional industries	Administrative services revolving	State Office Building Commission	Total
Contributed Capital	$ 9,308	$ 8,878	$ 1,490	$ 9,981	$ 29,657

I. Restatements and Reclassifications

For the fiscal year ended June 30, 2000, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

Primary Government - For the fiscal year ended June 30, 2000, the Employee, Payroll, Withholding and Benefits fund and Local Distributions fund are being reported as agency funds and were not reported that way in the past. Other prior period adjustments are reclassifications and errors not individually material to the financial statements.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 1999 As Reported	Prior Period Adjustments	Balance July 1, As Restated
Primary government including blended component units:			
General Fund	$ 3,440,583	$ (7)	$ 3,440,576
Special revenue funds	1,868,267	1,486	1,869,753
Debt service funds	10,706	-	10,706
Capital projects funds	517,898	(176)	517,722
Enterprise funds	146,357	166	146,523
Internal service funds	50,887	(3,571)	47,316
Trust and agency funds:			
Expendable trust	1,941,517	-	1,941,517
Nonexpendable trust	421,430	-	421,430
Pension trust	14,828,110	1	14,828,111
Agency (asset)	354,493	6,077	360,570
Discretely presented component units:			
Governmental	19,863	176	20,039
Proprietary	443,143	1	443,144
Colleges & universities	3,840,339	(113)	3,840,226
	$ 27,883,593	$ 4,040	$ 27,887,633

IV. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the minimum liability of death and disability payments. Claims expenses and liabilities were not reasonably estimable for State Employee death benefits. The surplus retained earnings in these funds is reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits fund	State Police Death Benefits	Total
2000						
Unpaid Claims, July 1	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	$ 19,371
Incurred Claims and Changes in Estimate	13,208	57,275	20,151	-	1,362	91,996
Claims Paid	13,497	55,580	18,612	-	1,262	88,951
Unpaid Claims, June 30	$ 2,013	$ 8,010	$ 11,118	$ -	$ 1,275	$ 22,416
1999						
Unpaid Claims, July 1	$ 2,200	$ 7,250	$ 833	$ 50	$ 1,090	$ 11,423
Incurred Claims and Changes in Estimate	12,558	47,454	23,646	50	1,255	84,963
Claims Paid	(12,456)	(48,389)	(14,900)	(100)	(1,170)	(77,015)
Unpaid Claims, June 30	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	$ 19,371

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2000 was $28.9 million.

B. Investment in Joint Venture

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the Site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited $159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

C. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2000.

	Inns and concessions	Toll bridges	Toll roads	State Lottery Commission	Malpractice Insuarance Authority	Total
Operating revenue	$ 16,770	$ 813	$ 92,929	$ 582,542	$ 1,394	$ 694,448
Depreciation and amortization	538	106	10,409	1,008	-	12,061
Operating income (loss)	(425)	209	41,752	161,772	(865)	202,443
Operating transfers in (out)	-	-	-	(164,405)	-	(164,405)
Net income (loss)	(41)	214	31,699	838	(2)	32,708
Fixed asset additions	76	12	29,437	1,145	-	30,670
Net working capital	1,882	2,774	183,693	65,397	3,256	257,002
Total assets	14,106	4,292	423,755	157,021	15,242	614,416
Bonds payable	463	-	242,053	-	-	242,516
Total equity	9,769	1,945	168,518	5,051	3,256	188,539

D. Subsequent Events

During the 1999 legislative session, the Governor and the General Assembly passed a number of tax cuts and shifted certain welfare costs from the counties to the State. It is estimated that the tax cuts will reduce state revenue collections by $572.3 million over the next two fiscal years. The shift in welfare costs is estimated to increase State distributions to local governments by $69.1 million over the same period of time.

On July 28, 1999, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series 1999A, with an aggregate par value of $96.8 million. The net bond proceeds will be used to fund approximately $9.5 million of construction costs for the Miami Correctional Facility-Phase I, as well as to replace $86.3 million of Hoosier Notes (principal and accrued interest) outstanding at June 30, 2000.

In July 1999, the Indiana Bond Bank issued $8 million of Advanced Funding Program Notes through Series 1999B. The Bond Bank also issued $7 million of State Revolving Fund Program Bonds through Series 1999 Taxable Subordinate I in September 1999.

E. Contingencies and Commitments

Litigation

The State does not establish reserves for judgements or other legal or equitable claims. Judgements and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to $300,000 for injury or death of one person in any one occurrence and $5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of $8-10 million for open tort lawsuits. During fiscal year ending June 30, 2000, the State paid $8.2 million for tort settlements and judgements and $647,000 for tort claims.

The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be in excess of $15 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. The Court of Appeals affirmed the decision and a petition for rehearing is pending. If unsuccessful in this litigation, the State would forfeit savings of up to $30 million.

In September, 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement
The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (the bonds). The proceeds of the bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility, which was substantially complete on March 1, 1999.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Qualitech to either i) pay bond and related expenses from certain monies legally available to the IDFA, or ii) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement.

Under a forbearance agreement through August 31, 2000, payments are estimated to aggregate $3.5 million, which was recognized as a loss for the year ended June 30, 1999. Because interest rates on the debt service payments were variable, an additional loss of $332,692 was incurred and recorded during the year ended June 30, 2000, of which $166,667 is accrued at June 30, 2000. The bonds remain outstanding under an amended Reimbursement Agreement with a new letter bank credit. The Reimbursement Agreement requires that the IDFA maintain the debt service reserve fund at a level of $3.99 million, and stipulates no declaration of default so long as bond and related payments are made.

The IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $28.7 million as of September 1, 2000. Debt service reserve fund aggregating $3.99 million are currently held in trust and may be available to reduce the contingency ogligation.

Federal Grants.
The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Construction Commitments.
As of June 30, 2000, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had $12.8 million committed for unfinished highway construction projects.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

G. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2000 was $539.7 million. Total outstanding loans were $.6 million, resulting in total assets of $540.3 million.

H. Gaming Tax Collections

On July 1, 1999, P.L. 273-1999 created the State Gaming Fund for the collection of Riverboat Wagering Tax. Prior to July 1, 1999, the gaming tax was collected in the State General Fund. During FY 1999 $295 million was collected in the General Fund. During FY 2000, $330 million was collected in the State Gaming Fund:

Included below is comparison of the General Fund for the two years with the Riverboat Wagering Tax adjusted out:

	FY 1999	FY 2000	$ Change	% Change
General Fund Tax Revenue	$ 8,268,867	$ 8,113,160	$ (155,707)	-1.88%
less Riverboat Wagering Tax Collected in the General Fund	(295,181)	-	(295,181)	100.00%
Adjusted General Fund Revenue	$ 7,973,686	$ 8,113,160	$ 139,474	1.75%

I. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

J. Discretely Presented Component Units – Condensed Financial Statements

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types and colleges and universities giving separate detail of the balances and activity of those considered significant to the State reporting entity.

Condensed Balance Sheet
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types and Colleges and Universities
June 30, 2000

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Assets						
Current assets	$ 750,018	$ 1,591,272	$ 103,651	$ 233,490	$ 1,095,842	$ 3,774,273
Non-current assets	-	-	1,257,978	679,111	194,374	2,131,463
Property, plant, and equipment net of accumulated depreciation	1,387,970	858,689	-	310	875,317	3,122,286
Total assets	$ 2,137,988	$ 2,449,961	$ 1,361,629	$ 912,911	$ 2,165,533	$ 9,028,022
Liabilities						
Current liabilities	$ 212,075	$ 422,607	$ 27,789	$ 2,791	$ 381,320	$ 1,046,582
Revenue bonds / notes payable	545,010	297,137	1,322,013	820,562	511,171	3,495,893
Total liabilities	757,085	719,744	1,349,802	823,353	892,491	4,542,475
Equity						
Net investment in plant	877,941	531,297	-	-	544,005	1,953,243
Endowments and similar funds	142,335	239,382	-	-	27,352	409,069
Unreserved retained earnings	-	-	11,827	89,558	335,623	437,008
Allocated fund balance	88,467	535,741	-	-	218,232	842,440
Unallocated fund balance	272,160	423,797	-	-	147,830	843,787
Total equity	1,380,903	1,730,217	11,827	89,558	1,273,042	4,485,547
Total liabilities and equity	$ 2,137,988	$ 2,449,961	$ 1,361,629	$ 912,911	$ 2,165,533	$ 9,028,022

Condensed Statement of Changes in Fund Balance
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2000

	Indiana University	Purdue University	Non-major universities	Total
Revenues and other additions:				
Current fund revenues	$ 1,100,590	$ 694,327	$ 595,353	$ 2,390,270
Additions to plant and facilities	131,387	100,358	105,819	337,564
Retirement of indebtedness	31,943	32,199	49,112	113,254
Other additions	816,953	518,693	358,601	1,694,247
Total revenues and other additions	2,080,873	1,345,577	1,108,885	4,535,335
Expenditures and other deductions:				
Current fund expenditures	1,313,768	754,441	741,682	2,809,891
Expended for plant, facilities, and disposals	126,440	76,543	122,353	325,336
Bond issues, issuance costs, and retirements	76,497	4,709	38,106	119,312
Debt service requirements	21,533	48,857	20,579	90,969
Depreciation and amortization	94,263	68,358	48,790	211,411
Other deductions	403,236	282,612	84,111	769,959
Total expenditures and deductions	2,035,737	1,235,520	1,055,621	4,326,878
Transfers from (to) other funds				
Mandatory transfers	-	-	(904)	(904)
Non-mandatory transfers	-	-	760	760
Total transfers from (to) other funds	-	-	(144)	(144)
Net increase (decrease) for the year	45,136	110,057	53,120	208,313
Fund balance, July 1, as restated	1,335,767	1,620,160	884,299	3,840,226
Fund balance, June 30	$ 1,380,903	$ 1,730,217	$ 937,419	$ 4,048,539

Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2000

	Indiana University	Purdue University	Non-major universities	Total
Revenues:	$ 1,658,020	$ 1,076,745	$ 872,110	$ 3,606,875
Expenditures and mandatory transfers:				
Expenditures:				
Educational and general	1,275,822	858,665	710,056	2,844,543
Auxiliary enterprises	272,244	131,238	105,666	509,148
Mandatory transfers	58,695	47,641	19,698	126,034
Total expenditures and mandatory transfers	1,606,761	1,037,544	835,420	3,479,725
Other transfers and additions (deductions):	(28,840)	(6,794)	(30,747)	(66,381)
Increase (decrease) in fund balance	$ 22,419	$ 32,407	$ 5,943	$ 60,769

Condensed Statement of Revenues, Expenses and Changes in Retained Earnings
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types
For the Fiscal Year Ended June 30, 2000

	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Operating revenues:	$ 63,197	$ 13,103	$ 52,205	$ 128,505
Operating expenses:	3,568	7,327	20,553	31,448
Operating income (loss)	59,629	5,776	31,652	97,057
Nonoperating revenues (expenses):	(59,230)	(31,291)	(8,548)	(99,069)
Income before operating transfers	399	(25,515)	23,104	(2,012)
Operating transfers in (out)	-	-	(4,124)	(4,124)
Net income (loss)	399	(25,515)	18,980	(6,136)
Retained earnings, July 1, as restated	11,428	115,073	316,643	443,144
Retained earnings, June 30	$ 11,827	$ 89,558	$ 335,623	$ 437,008

K. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements as pension trust funds.

Summary of Significant Accounting Policies
Contributions are recognized when received with accrual adjustments at June 30, 2000. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2000, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2000. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

GASB Statement 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

The state sponsors the following defined benefit single-employer plans:

State Police Retirement Fund

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 18.5% of covered payroll.

Excise Police and Conservation Enforcement Officers' Retirement Fund

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first $8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 15.6% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 1023.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

	PERF		SPRF	ECRF	JRS	PARF	LRS
	State	Municipal					
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 67,481.0	$ 99,943.0	$ 8,580.3	$ 1,780.8	$ 11,101.4	$ 390.3	$ 208.4
Interest on net pension obligation	(78.0)	(1,433.0)	(44.0)	(20.2)	(103.5)	16.3	(3.4)
Adjustment to annual required contribution	83.0	1,533.0	47.6	20.2	103.2	(17.3)	3.9
Annual pension cost	67,486.0	100,043.0	8,583.9	1,780.8	11,101.1	389.3	208.9
Contributions made	(77,821.0)	(125,223.0)	(9,587.0)	(1,799.6)	(11,095.4)	(184.4)	(200.6)
Increase (decrease) in net pension obligation	(10,335.0)	(25,160.0)	(1,003.1)	(18.8)	5.7	204.9	8.3
Net pension obligations, beginning of year	(1,072.0)	(21,905.0)	(628.4)	(278.9)	(1,428.1)	225.0	(46.8)
Net pension obligations, end of year	$ (11,407.0)	$ (47,085.0)	$ (1,631.5)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Significant Actuarial Assumptions							
Investment rate of return	7.25%	7.25%	7.00%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	5.00%	5.00%	11.60%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	2.00%	2.00%	6.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	5.00%	5.10%	18.50%	15.60%	37.10%	3.40%	*
Plan members	3.00%	3.00%	6.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/99	7/1/99	7/1/00	7/1/99	7/1/99	7/1/99	7/1/99
Actuarial cost method	entry age	entry age	entry age	entry age	entry age	entry age	projected unit credit cost
Amortization method	level dollar	level dollar	level percent	level dollar	level dollar	level dollar	level dollar
Amortization period (from July 1, 1997)	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	75% of Expected Actuarial Value plus 25% of Cost Value	75% of Expected Actuarial Value plus 25% of Cost Value	smoothed basis	smoothed basis	smoothed market	smoothed market	smoothed market value
Historical Trend Information							
Year ended June 30, 2000							
Annual pension cost (APC)	*	*	$ 8,583.9	*	*	*	*
Percentage of APC contributed	*	*	111.7%	*	*	*	*
Net pension obligations (assets)	*	*	$ (1,631.5)	*	*	*	*
Year ended June 30, 1999							
Annual pension cost (APC)	$ 67,486.0	$ 100,043.0	$ 8,583.9	$ 1,780.8	$ 11,101.1	$ 389.3	$ 208.9
Percentage of APC contributed	115.3%	125.2%	111.9%	101.1%	99.9%	47.4%	96.0%
Net pension obligations (assets)	$ (11,407.0)	$ (47,085.0)	$ (628.4)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Year ended June 30, 1998							
Annual pension cost (APC)	$ 81,546.0	$ 101,345.0	$ 9,360.0	$ 1,675.7	$ 10,762.5	$ 275.3	$ 170.9
Percentage of APC contributed	98.3%	114.4%	98.3%	102.9%	99.0%	67.0%	117.9%
Net pension obligations (assets)	$ (1,072.0)	$ (21,905.0)	$ 157.0	$ (278.9)	$ (1,428.2)	$ 225.0	$ (46.7)
Year ended June 30, 1997							
Annual pension cost (APC)	$ 79,101.3	$ 100,780.0	$ 9,251.0	$ 1,382.9	$ 11,347.3	$ 308.6	$ 182.4
Percentage of APC contributed	103.0%	107.0%	71.8%	116.6%	113.5%	56.4%	109.0%
Net pension obligations (assets)	$ (2,483.5)	$ (6,939.0)	N/A	$ (230.2)	$ (1,531.2)	$ 134.7	$ (16.5)

PERF - Public Employees' Retirement Fund
SPRF - State Police Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund
JRS - Judges' Retirement System
PARF - Prosecuting Attorneys' Retirement Fund
LRS - Legislators' Retirement System

N/A - not applicable
* - information not available

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2000, the number of participating employers was 353.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit pay-outs for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 238.

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	STRF	PFPF*
Historical Trend Information		
Year ended June 30, 1999		
Annual required contribution	$ 524,815.6	$ 63,682.3
percentage contributed	117%	100%
Year ended June 30, 1998		
Annual required contribution	$ 508,259.7	$ 57,726.0
percentage contributed	92%	100%
Year ended June 30, 1997		
Annual required contribution	$ 508,940.1	$ 52,249.0
percentage contributed	106%	101%

STRF - State Teachers' Retirement Fund
PFPF - 1977 Police Officers and Firefighters' Retirement Fund

* - year ended December 31

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2000 were $970,000.

Discretely Presented Component Units

Governmental and proprietary fund types

Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

Colleges and Universities

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed $91.9 million for 11,979 participants for the year ended June 30, 2000.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 1998 are included in the disclosures for PERF.

L. Required Supplementary Information

	PERF		Complete SPRF	ECRF	JRS	PARF	LRS
	State	Municipal					
Valuation Date: July 1, 2000							
Actuarial value of assets	*	*	$ 292,383	*	*	*	*
Actuarial accrued liability (AAL)	*	*	326,016	*	*	*	*
Excess of assets over (unfunded) AAL	*	*	(33,633)	*	*	*	*
Funded ratio	*	*	90%	*	*	*	*
Covered payroll	*	*	50,898	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	*	*	-66%	*	*	*	*
Valuation Date: July 1, 1999							
Actuarial value of assets	$ 1,828,584	$ 2,179,129	$ 273,032	$ 31,510	$ 91,073	$ 8,323	$ 4,319
Actuarial accrued liability (AAL)	1,583,486	1,904,943	303,805	43,368	176,301	13,712	5,473
Excess of assets over (unfunded) AAL	245,098	274,186	(30,773)	(11,858)	(85,228)	(5,389)	(1,154)
Funded ratio	115%	114%	90%	73%	52%	61%	79%
Covered payroll	1,271,756	1,978,441	46,361	11,317	30,963	12,566	**
Excess (unfunded) AAL as a percentage of covered payroll	19%	14%	-66%	-105%	-275%	-43%	**
Valuation Date: July 1, 1998							
Actuarial value of assets	$ 1,626,450	$ 1,925,592	$ 255,614	$ 28,663	$ 79,594	$ 7,144	$ 4,041
Actuarial accrued liability (AAL)	1,491,986	1,775,251	289,612	41,679	160,845	11,356	5,385
Excess of assets over (unfunded) AAL	134,464	150,341	(33,998)	(13,016)	(81,251)	(4,212)	(1,344)
Funded ratio	109.01%	108.47%	88%	69%	49%	63%	75%
Covered payroll	1,229,903	1,880,259	45,187	10,137	30,853	11,673	742
Excess (unfunded) AAL as a percentage of covered payroll	10.93%	8.00%	-75%	-128%	-263%	-36%	-181%
Valuation Date: July 1, 1997							
Actuarial value of assets	$ 1,447,332	$ 1,699,981	$ 240,880	$ 26,324	$ 69,357	$ 5,970	$ 3,834
Actuarial accrued liability (AAL)	1,465,189	1,661,044	279,575	38,460	150,005	9,504	5,429
Excess of assets over (unfunded) AAL	(17,857)	38,937	(38,695)	(12,136)	(80,648)	(3,534)	(1,595)
Funded ratio	99%	102%	86%	68%	46%	63%	71%
Covered payroll	1,283,228	1,773,165	44,470	9,855	29,228	11,811	882
Excess (unfunded) AAL as a percentage of covered payroll	-1%	2%	-87%	-123%	-276%	-30%	-181%

PERF - Public Employees' Retirement Fund
SPRF - State Police Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund
JRS - Judges' Retirement System
PARF - Prosecuting Attorneys' Retirement Fund
LRS - Legislators' Retirement System

* - information not available
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 60 active participants. The unfunded liability per active participant is $19,245.

APPENDIX B

ADDITIONAL INFORMATION PERTAINING TO THE BURNS HARBOR REDEVELOPMENT DISTRICT AND THE TOWN OF BURNS HARBOR, INDIANA

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TOWN OF BURNS HARBOR, INDIANA

Project Description

The Project will extend sewage service to the Town of Burns Harbor including the Burns Harbor Allocation Area. The purchase of a treatment plant and related improvements and the construction of a sewage collection system are included as part of the Project.

GENERAL SOCIAL AND DEMOGRAPHIC DATA

Location

The Town of Burns Harbor is located in Westchester Township in northwestern Porter County, with Lake Michigan as its northern boundary. Burns Harbor is approximately twelve miles north of Valparaiso, 35 miles east of Chicago, and 150 miles northwest of Indianapolis.

History and General Characteristics

Porter County was formed in 1836, and included the territory now comprising both Porter and Lake Counties in the northwestern corner of Indiana. Porter County was named in honor of Commodore David Porter of the U.S. Navy, who fought a famous battle during the War of 1812 near the harbor of Valparaiso, Chile. Portersville was named the county seat, which was renamed Valparaiso in 1837. Porter County today is highly diversified, with miles of farm land to the south and major industrial installations to the north along the shores of Lake Michigan.

The Town of Burns Harbor was incorporated in 1967, after it became the home of Porter County's largest employer, Bethlehem Steel Corporation. To meet the needs of the expanded population, new schools and libraries were built, new businesses were established and new housing developments were constructed throughout Westchester Township.

Population

According to the U.S. Bureau of Census, the population of Burns Harbor and Porter County are reported as follows:

	Town of Burns Harbor		Porter County	
Year	Population	Percentage Change	Population	Percentage Change
1950	N/A*		40,076	44.0%
1960	N/A*		60,279	50.4%
1970	1,284		87,114	44.5%
1980	920	(28.3%)	119,816	37.5%
1990	788	(14.3%)	128,932	7.6%
2000	766	(2.8%)	146,798	13.9%

* The Town of Burns Harbor was incorporated in 1967.

Government

The Town of Burns Harbor is governed by a five-member Town Council, with each official elected to a four-year term. The Clerk-Treasurer is responsible for the Town's financial records and is also elected to a four-year term.

Planning and Zoning

The Town of Burns Harbor has a seven-member Plan Commission and a five-member Board of Zoning Appeals to promote orderly growth within the Town.

Transportation

State Route 149, U.S. Highways 12 and 20, and Interstate 94, all serve the Town of Burns Harbor. The Indiana Toll Road (80-90), Interstates 94 and 65, and U.S. Highways 6 and 30 are located nearby. Commuter rail service to Chicago and South Bend is provided by the South Shore Railroad, which maintains a station near Dune Acres, approximately ten miles northeast of Burns Harbor. Commuter, freight and charter air service is provided at the Porter County Municipal Airport in Valparaiso. Commercial flights are available at O'Hare International Airport and Midway Airport, in nearby Chicago.

A deep water port, the Port of Indiana, Burns International Harbor, was completed on the Lake Michigan border of Porter County in 1978. The port spans three miles of shore line and has developed into an industrial shipping center for the Midwest. The port is classified as a maritime opportunity district, and has a foreign trade zone designation.

Police and Fire Protection

Police protection in the Town of Burns Harbor is provided by four full-time police officers and other part-time officers. The police department utilizes six vehicles.

The Burns Harbor Volunteer Fire Department is comprised of a chief and 25 volunteers, and provides fire protection to Town residents. The fire department utilizes one tanker, two engines, two brush trucks, one mini-pumper, and one rescue truck.

The Porter County Ambulance service is operated through Porter Memorial Hospital and provides emergency ambulance service for all of Porter County.

Health Care

The 400-bed Porter Memorial Hospital is located in Valparaiso and is a part of Porter Memorial Health System. Porter Memorial provides acute health care to the residents of Burns Harbor. Services provided include emergency/trauma care, cardiology, family medicine, surgery, obstetrics, pediatrics, neonatal intensive care, orthopedics, oncology, occupational medicine, speech therapy, social work services, and physical rehabilitation care. A 36-foot "Road to Wellness" van was added in 1998 which provides a mobile site for health screenings, educational programs, and special programs. The Porter Memorial Health System has satellite facilities in several locations throughout the county, including the Chesterton Medical Center in nearby Chesterton, Indiana, which provides laboratory, diagnostic imaging, physical rehabilitation, urgent care, and physician consultation services for area residents.

Porter Memorial Hospital and the Methodist Hospitals, Inc., formed a not-for-profit corporation for development of the new Portage Community Hospital which opened in 1998. The facility has 75,000 square feet with four stories, and presently features 25 inpatient suites, a maternity unit, "Room Service At Your Request", and physicians offices on site. Facilities and services to be developed include intensive care and pediatrics units. An emergency room opened in January 1999 at Portage Community Hospital, in a remodeled area of the former Portage Medical Surgical Center.

The following Porter Memorial Health System facilities are also located in Valparaiso: the Valparaiso Surgery Center, an outpatient facility containing a surgery department, diagnostic services, and a Women's Services Center; the Northern Indiana Rehabilitation Center, a 17-bed inpatient facility providing extended physical rehabilitation care for patients who have suffered severe orthopedic or neurologic trauma; the Northern Indiana Psychiatric Center, a 13-bed adult inpatient facility providing a variety of mental health care services; the Northern Indiana Oncology Center, an advanced treatment facility for cancer patients, featuring Linear Accelerator services; and the Comprehensive Renal Care Porter Dialysis Center, for patients requiring comprehensive outpatient renal dialysis. The Northern Indiana Occupational Medical Service offers companies a variety of industry-related health care services including evaluating potential employee health, treating work-related injuries, and helping rehabilitate injured employees.

A new $6,000,000 Northwest Indiana HEART Center, a 40,000-square foot facility attached to the Valparaiso Surgery Center, opened in 1998. The facility was developed jointly by Porter Memorial Health System and the four physician groups which comprise the Northwest Indiana HEART Center. Services offered at the facility include cardiac rehabilitation, non-invasive outpatient testing, cardiac catherization services, cardiac screenings, and surgical consultations.

Education

School-aged children in Burns Harbor attend the Duneland School Corporation for public education. The School Corporation has one high school (9-12), two middle schools (6-8), and five elementary schools (K-5). Total enrollment for the 2000-2001 school year is 5,407 students, with approximately 317 certified and 425 non-certified personnel, as reported by school administrators. Special education is provided by the Porter County Special Education Cooperative. Chesterton High School provides vocational education programs, including several tech-prep classes, and students may participate in additional vocational courses at the Porter County Career Center in Valparaiso. The high school and middle school are fully accredited by the North Central Association of Secondary Schools and Colleges. Chesterton High School also holds a special First Class Commission from the State of Indiana, while Jackson Elementary and Westchester Middle School were named Four Star Schools for the 1999-2000 school year.

A new high school building was completed in the summer of 2000. The project was financed with $70,990,000 of Duneland School Building Corporation First Mortgage Bonds, Series 1997. The bonds were advanced refunded in 1999.

The old high school building is presently being renovated into a middle school, which will house grades 7 and 8. The two present middle schools will then become intermediate schools, serving fifth and sixth grade students, and the five elementary buildings will house kindergarten through fourth grades. This project is expected to be completed by August, 2001.

Higher Education

Valparaiso University, one of the largest Lutheran universities in the nation, is located on 310 acres at the southeast corner of nearby Valparaiso. The University serves approximately 3,600 students in more than 70 fields of study. Although operated by the Lutheran University Association since 1925, the University has been part of the Valparaiso community since 1859. Academic units offered include four undergraduate colleges: Arts and Sciences, Business Administration, Engineering, and Nursing. In addition, the University offers Graduate and Continuing Education divisions, a School of Law, and Christ College, an honors college. In the center of the Valparaiso University campus is the Chapel of the Resurrection, one of the world's largest college chapels.

The Valparaiso campus of the Indiana Vocational Technical College offers a wide range of courses in health technology, business, and technical studies. The average enrollment at Ivy Tech is approximately 1,000 students per semester. In addition, Porter Memorial Hospital provides a radiology school and EMT-paramedic school for career opportunities.

Other institutions of higher learning that are within commuting distance of Burns Harbor include Indiana University - Northwest Campus in Gary, Purdue University - Calumet Campus in Hammond, and Purdue University - North Central in Westville, Indiana.

Communications

The Chesterton Tribune is a daily newspaper that is circulated in the Town of Burns Harbor. Other newspapers circulated in the area include those from Portage, Valparaiso, Gary and Hammond. WDSO-FM is broadcast from Chesterton and provides local news and information. Other radio signals originate from Valparaiso, Michigan City, and Chicago. The residents of Burns Harbor receive television signals from Chicago and South Bend, and have access to cable television.

Utilities

Northern Indiana Public Service Company supplies electricity and natural gas to Town residents. Verizon (formerly GTE) provides telephone service. Indiana American Water Company provides water services for Town residents.

Library/Recreation/Cultural Activities

The Towns of Burns Harbor, Chesterton, Porter, and Dune Acres, along with Westchester Township and a portion of the City of Portage, are under the jurisdiction of the Westchester Public Library System. The system is comprised of the Thomas Memorial Public Library in Chesterton, the Hageman Memorial Public Library in Porter, and a Library Services Center in Chesterton. Current holdings at the libraries total approximately 167,000 books and bound serials, 425 periodical subscriptions, 9,639 audio units, 10,249 video units, and 563 electronic format units, primarily CD Roms. The library offers many programs to area residents including summer reading programs for all ages, story hours, infant and toddler programs, children and young adult discussion groups, and young writer programs, as well as a variety of adult programs. The library also provides computers for public use, including Internet access. The Westchester Public Library System has a reciprocal borrowing agreement with the Valparaiso-Porter County Public Library system for residents of Duneland School Corporation.

Two parks are located within the Town of Burns Harbor which provide local recreational activities. In addition, Burns Harbor is located five miles from the Indiana Dunes National Lakeshore and the Indiana Dunes State Park on the shore of Lake Michigan. Together, the two parks comprise nearly 15,000 acres of recreational area and feature swimming, fishing, camping, and hiking.

Among the cultural activities available to residents of Burns Harbor are a variety of programs offered at Valparaiso University and the 3,300-seat Holiday Star Theater in nearby Merrillville. The Town's proximity to Chicago also provides a full-range of cultural and recreational opportunities, including musical productions, art exhibits and museums, as well as professional sporting events.

GENERAL ECONOMIC AND FINANCIAL INFORMATION

Employment

Unemployment statistics for Porter County are reported as provided by the Indiana Department of Workforce Development.

	Unemployment Rate		Porter County
Year	Porter County	Indiana	Labor Force
1990	4.0%	5.3%	65,380
1991	4.5%	6.0%	66,260
1992	5.7%	6.6%	67,540
1993	5.3%	5.4%	69,990
1994	4.8%	4.9%	71,420
1995	4.7%	4.7%	73,250
1996	3.7%	4.1%	73,530
1997	3.0%	3.5%	75,380
1998	2.7%	3.1%	76,160
1999	3.0%	3.0%	75,630
2000	3.2%	3.2%	74,210
2001, March	3.4%*	3.2%	73,600*

* Not seasonally adjusted.

Miscellaneous Economic Data

The following information concerning Porter County and the State of Indiana has been obtained from the Bureau of Census Reports and the Indiana State Library.

	Porter County	Indiana
Per capita personal income in 1998	$ 27,758	$ 25,163
Median family income in 1989	$ 41,929	$ 34,082
Average weekly earnings in manufacturing (3rd quarter of 2000)	$ 1,019.00	$ 784.00
Population per square mile in 1990	308.3	154.6
Value added by manufacturing in 1992	$1,528,200,000	$49,778,501,629
Retail sales in 1992:		
Total retail sales	$ 811,726,000	$42,373,476,000
Sales per capita	$ 6,048	$ 7,497
Sales per establishment	$ 1,375,968	$ 1,266,847

Total adjusted gross income for Porter County in 1998 was $2,991,710,142, up from $2,744,489,696 in 1997, as provided by the Indiana Department of Revenue.

Earnings and distribution of labor force by major employment division in 1998 for Porter County are as follows:

Industry	Earnings (In 1,000's)	Percent Of Earnings	Distribution Of Labor Force
Manufacturing	$ 759,288	34.41%	17.81%
Services	428,706	19.43%	27.24%
Wholesale & retail trade	304,452	13.80%	23.42%
Government	278,754	12.63%	12.65%
Contract construction	223,503	10.13%	8.03%
Transportation, communications & public utilities	112,090	5.08%	4.02%
Finance, insurance & real estate	80,451	3.65%	5.00%
Miscellaneous	10,244	.46%	.98%
Farming	9.053	.41%	.85%
Totals	**$2,206,541**	**100.00%**	**100.00%**

Industry

Bethlehem Steel Corporation's Burns Harbor Division is the largest employer and taxpayer in Porter County. Located primarily in the Town of Burns Harbor, the Division is the newest integrated steelmaking facility in the United States and one of the most productive in the world. At Burns Harbor, the basic steelmaking raw materials of iron ore, coal, and limestone are converted into steel plate, hot- and cold-rolled sheets, and coated sheets. Facilities include two coke oven batteries, two blast furnaces, three basic oxygen furnaces, two continuous slab casters, two plate mills, a hot strip mill, cold sheet mill, and hot-dip coating line. These products serve the automotive, construction, construction machinery, office furniture, and appliance markets, among others. A slabbing mill at the facility closed in December 2000. The closing affected approximately 100 employees, some of who were reassigned to other Burns Harbor facilities, while others retired. Due to declining business trends, total employment has decreased by approximately 300 employees since early February 2001 through a combination of retirements, voluntary and involuntary lay offs, and the closing of the slab mill. Bethlehem Steel reports present employment at 5,500 employees at its Burns Harbor location. Company officials currently have no employment projections available due to the unknown business market; however, it is expected that employment will remain near its present level of 5,500 employees.

Over the past ten years, Bethlehem Steel has invested more than $1.5 billion to improve the facilities at Burns Harbor, according to company officials. In 1999, Bethlehem continued to enhance the competitiveness of the Division's hot strip mill and installed a system to detect defects on moving strip in the cold sheet mill.

Field Technologies is a mechanical contractor which was established in Burns Harbor in 1997. Company officials report that, as a union contractor, total employment for the company varies widely within a year, up to 300 employees per week. However, it is estimated that the average weekly employment for Field Technologies is approximately 150 employees.

United States Can Company was established in Burns Harbor in 1961 as Continental Can Company, according to company officials. Although cans are not manufactured at Burns Harbor, the facility is a lithograph center with cans as its end product. Present employment is reported at 144 employees.

Processing Technology, Inc., opened a new facility in Burns Harbor in 1992. The company processes and warehouses steel, and reports that employment is down by 7-10 employees in recent months, due to business trends. Processing Technology currently employs approximately 70 personnel.

J & F Steel Corporation, a steel processing operation, constructed a new facility in Burns Harbor in 1997 which houses its corporate offices as well as the processing plant. J & F employs approximately 50 persons and employment is expected to remain stable in the near future, according to company personnel.

Port of Indiana, Burns International Harbor is a 700-acre maritime industrial park with a state owned and operated port. The park is approximately 90% developed, and provides improved roadways and all utilities. Police protection is provided by the Indiana State Police, the Portage Police Department, and a private security force. Companies located in the park must lease land, and must have a maritime aspect to their products. Port officials estimate the park's tenant companies generate a total of approximately 3,500 on-site jobs.

Large Employers

Below is a list of the larger employers located in the Town of Burns Harbor. Employment statistics are reported by company personnel.

Name	Year Established	Product/Service	Approximate Employment	
Bethlehem Steel Corp.	1964	Fully integrated steel mill	5,500	*
The Levy Company	1969	Mill service & slag sales	300	*
Field Technologies	1997	Mechanical contractors	150	(1)
United States Can Co.	1961	Lithograph center	144	
Philips Services Corp.	1964	Steel mill services	100	
Processing Technology, Inc.	1992	Process & warehouse steel	70	
J & F Steel Corporation	1997	Steel processor	50	
Bulk Transport Corporation	1960	Trucking company	35	
Camp Land	1998	Recreational vehicle dealership	30	(2)
Steel City Steels, Inc.	1994	Steel distributor	25	

* A portion is also located in the City of Portage.

(1) Figure represents average weekly employment on an annual basis, per company personnel.

(2) Employment increases to about 45 employees during the summer months.

Building Permits

Building permit data provided by the Town of Burns Harbor Clerk-Treasurer's office.

	Residential		Commercial/ Industrial			Total	
Year	**No.**	**Value**	**No.**	**Value**		**No.**	**Value**
1991	1	$ 50,000	8	$ 9,291,000	(1)	9	$ 9,341,000
1992			4	488,000		4	488,000
1993	2	195,000	8	4,343,000	(2)	10	4,538,000
1994	3	226,000	10	6,415,000	(3)	13	6,641,000
1995	2	156,000	10	1,525,000		12	1,681,000
1996	1	125,000	19	3,127,000	(4)	10	3,252,000
1997	3	148,900	14	10,679,600	(5)	17	10,828,500
1998	4	304,000	17	19,454,579	(6)	11	19,758,579
1999	11	50,050	16	5,059,087	(7)	27	5,109,137
2000	12	71,583	12	7,226,267	(8)	24	7,297,850

(1) Includes one permit valued at $9,000,000 for Processing Technology, Inc.
(2) Includes six permits totaling $4,197,000 for Bethlehem Steel Corporation.
(3) Includes five permits totaling $4,495,000 for Bethlehem Steel Corporation; and $1,000,000 for Magnetics International.
(4) Includes two permits for Bethlehem Steel Corporation totaling $1,520,000.
(5) Includes one permit for a new facility for J & F Steel Corporation, valued at $3,200,000; seven permits for Bethlehem Steel, totaling $2,877,600; one permit for a new facility valued at $1,400,000 for Chicago Steel Importers Corp.; and one permit for a new facility valued at $1,200,000 for Field Technologies.
(6) Includes two permits for Prax Air, for installation of a 232-foot tower, valued at $15,200,000, and installation of mechanical equipment, valued at $1,700,000.
(7) Includes four permits for Bethlehem Steel Corporation, totaling $2,005,000; and a permit for Eagles Nest, LLC, valued at $1,500,000.
(8) Includes a permit for Williams Travel Centers, valued at $5,900,000.

Schedule of Bonded Indebtedness

The following schedule shows the outstanding indebtedness of the Town of Burns Harbor and the taxing units overlapping its jurisdiction as of May 14, 2001, as reported by the respective taxing units.

Issuer	**Total Debt**		**Percent Allocable To the Town***	**Amount Allocable To the Town**
Tax-Supported Debt:				
Town of Burns Harbor	$ 8,875,000	(1)	100.00%	$ 8,875,000
Duneland School Corporation	84,065,000	(2)	53.07%	44,613,296
Porter County	53,035,000	(3)	19.26%	10,214,541
Total tax-supported debt				**$63,702,837**

* Based on net assessed valuation for 2000 taxes payable in 2001.

Notes to Bonded Indebtedness

(1)	Town of Burns Harbor:	
	Proposed Redevelopment Bonds of 2001	$ 6,420,000
	Proposed General Obligation Bonds of 2001	1,695,000
	General Obligation Bonds of 1994	760,000
	Total	**$ 8,875,000**

(2)	Duneland School Corporation:	
	Duneland SBC First Mortgage Refunding Bonds, Series 1999	$78,915,000
	Duneland SBC First Mortgage Bonds, Series 1996	1,650,000
	General Obligation Bonds, Series 1994	3,500,000
	Total	**$84,065,000**

The School Corporation has $7,200,000 in outstanding Tax Anticipation Warrants for 2001.

(3)	Porter County:	
	Jail BC First Mortgage Refunding Bonds, Series 2001	$37,985,000
	G.O. Refunding Bonds of 2001	6,645,000
	Juvenile Service Center Building Corporation First Mortgage Refunding Bonds, Series 1997	6,035,000
	Building Bonds of 1994 (G. O.)	2,370,000
	Total	**$53,035,000**

Debt Ratios

The following table shows various ratios relative to the tax-supported indebtedness of the taxing units within and overlapping the jurisdiction of the Town of Burns Harbor as of May 14, 2001.

	Direct Town Debt $8,875,000	**Allocable Portion of All Other Tax-Supported Debt $54,827,837**	**Total Direct Underlying and Overlapping Tax-Supported Debt $63,702,837**
Per capita (1)	$11,586.16	$71,576.81	$83,162.97
Percent of net assessed valuation (2)	2.60%	16.08%	18.68%
Percent of assumed market value (3)	.87%	5.36%	6.23%

(1) Based upon 2000 census data, the population of Burns Harbor is 766, according to the U.S. Bureau of Census.

(2) The net assessed valuation of the Town of Burns Harbor for taxes payable in 2001 is $340,948,510, according to the Porter County Auditor's office.

(3) Assumes that the net assessed valuation is 33-1/3% of fair market value. Assessed fair market value is $1,022,845,530.

Historical Schedule of Net Assessed Valuation

Of the Town of Burns Harbor

(As Recorded in the Porter County Auditor's Office)

Year Taxes Payable	Net Assessed Valuation Real Estate	Personal Property	Utilities	Totals	
1992	$24,880,900	$ 86,092,350	$1,487,780	$112,461,030	
1993	26,261,660	97,260,140	1,513,750	125,035,550	
1994	28,762,740	91,323,310	1,849,710	121,935,760	
1995	29,237,010	94,034,910	1,647,830	124,919,750	
1996	32,014,950	98,916,970	1,670,770	132,602,690	
1997	79,252,150	183,534,040	1,693,760	264,479,950	(1)
1998	81,786,860	201,897,150	1,813,890	285,497,900	
1999	84,049,360	228,796,310	2,018,130	314,863,800	
2000	85,174,410	240,271,690	1,972,780	327,418,880	
2001	86,298,710	251,582,910	3,066,890	340,948,510	(2)

(1) Significant increase due to Burns Harbor's annexation of a Bethlehem Steel Corporation facility, formerly part of Westchester Township.

(2) Bethlehem Steel Corporation is in the process of appealing its real property net assessed valuation. In addition, the Corporation has filed its personal property tax return for 2001 at a significantly lower amount than for its previous years. If the Corporation is successful in its appeal and the Corporation's 2001 personal property tax return remains as it is: (i) the Corporation's net assessed value would be reduced by approximately 49.4%; (ii) the total net assessed valuation for the Town of Burns Harbor would drop to approximately $195,920,010; and (iii) the percentage of the Town's net assessed valuation attributable to Bethlehem Steel Corporation would drop from 86.19% to approximately 75.97%.

Note: The real property assessment in Indiana that was effective March 1, 1989, was based upon 1985 costs of land, material and labor, and applied to 1989 taxes payable in 1990, through 1994 taxes payable in 1995. The real property reassessment completed March 1, 1995, is based upon 1991 costs of land, material, and labor, and applies to 1995 taxes payable in 1996, through 2000 taxes payable in 2001. For taxing purposes, assessments made prior to March 1, 2001, are made at 33-1/3% of true tax value. Net assessed valuations represent the assessed value less certain deductions for mortgages, veterans, the aged and the blind, as well as tax-exempt property.

On December 4, 1998, the Indiana Supreme Court affirmed in part and reversed in part a ruling by the Indiana Tax Court that the true tax value method of valuing property for purposes of levying property taxes was unconstitutional. *Town of St. John v. State Board of Tax Commissioners*, 702 N.E.2d 1034 (Ind. 1998). The Indiana Supreme Court ruled that the true tax value method is constitutional but the current cost schedules used by the State Board of Tax Commissioners are unconstitutional. This ruling affects only the valuation method and not the ability of the Town to levy an unlimited property tax to pay debt service. On May 31, 2000 the Indiana Tax Court ordered the State Board of Tax Commissioners to complete the new assessment regulations by June 1, 2001 and to complete reassessment under those regulations by March 1, 2002. The State Board of Tax Commissioners has published the new assessment rules, which will be effective June 22, 2001. The Town cannot predict the impact on property tax collections, or the timing of, future judicial actions in this case, or legislation, regulations or rulings enacted to implement this ruling.

Detail of Net Assessed Valuation
Of the Town of Burns Harbor
For the Tax Year 2000 Payable 2001
(Per the Porter County Auditor's Office)

Value of land	$ 8,446,310
Value of improvements	79,879,310
Total value of real estate	88,325,620
Less: Mortgage exemptions, veterans, blind, age 65 and	
other exemptions	(1,969,300)
Non-taxable property	(57,610)
Net Assessed Value of Real Estate	**86,298,710**
Gross personal property assessments	271,406,710
Less: Exemptions	(19,823,800)
Net Assessed Value of Personal Property	**251,582,910**
Net Assessed Value of Utilities	**3,066,890**
Total Net Assessed Valuation	**$340,948,510**

Historical Detail of Corporate Tax Rates
For the Town of Burns Harbor
Per $100 of Net Assessed Valuation
(As Shown by the Porter County Auditor's Office)

		Year Taxes Payable								
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Corporation General	$0.6081	$0.5720	$0.6491	$0.5582	$0.6013	$0.3680	$0.3475	$0.3269	$0.3137	$0.3118
Motor Vehicle Highway	0.0293	0.0093	0.0006	0.0255	0.0252	0.0105	0.0108	0.0295	0.0219	0.0259
Debt Service				0.1764	0.1694	0.0780	0.0822	0.0579	0.0583	0.0587
Park	0.0744	0.0435	0.0265	0.0511	0.0466	0.0232	0.0234	0.0224	0.0202	0.0221
Cum. Sewer/Street	0.0200	0.0200	0.0200	0.0200	0.0200	0.0200	0.0200	0.0200	0.0200	0.0200
Cum. Capital Development	0.0800	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400
Total	**$0.8118**	**$0.6848**	**$0.7362**	**$0.8712**	**$0.9025**	**$0.5397**	**$0.5239**	**$0.4967**	**$0.4741**	**$0.4785**
Total Tax Rate:(1)										
Town of Burns Harbor	**$6.6696**	**$6.4539**	**$6.6523**	**$7.1203**	**$7.1571**	**$7.1152**	**$7.5606**	**$7.3458**	**$7.5931**	**$7.6484***

(1) Includes tax rates of overlapping taxing units.

* Bethlehem Steel Corporation is in the process of appealing its real property net assessed valuation. In addition, the Corporation has filed its personal property tax return for 2001 at a significantly lower amount than in pervious years. If the Corporation is successful in its appeal and the Corporation's 2001 personal property tax return remains as it is, the tax rate would increase by approximately $1.786 per $100 of net assessed valuation to $9.4344 per $100 of net assessed valuation.

Property Taxes Assessed and Collected

The amount of property taxes collected within the Town of Burns Harbor for the collection years 1991 through 2000 is shown below, including the ratio of total property taxes collected to total property taxes assessed, as reported by the Porter County Auditor's Office.

Year of Collection	Total Taxes, Penalties, and Interest Collected: Local Portion	State Replacement Tax Credit (1)	Homestead Credit (2)	Personal Property Tax Reduction Credit (3)	Total Collections	Total Amount Assessed	Percent Collected	Total License Excise Tax Collected (4)
1991	$5,741,164	$1,216,453	$ 4,050	$	$ 6,961,667	$ 6,996,379	99.50%	$ 62,293
1992	6,375,236	1,266,972	3,385		7,645,593	7,613,194	100.43%	73,081
1993	6,692,912	1,310,815	3,356		8,007,083	8,067,793	99.25%	76,815
1994	6,848,697	1,316,076	3,729		8,168,502	8,144,446	100.30%	90,041
1995	7,545,917	1,386,695	3,918		8,936,531	8,916,115	100.23%	95,917
1996	7,883,365	1,441,648	8,881		9,333,895	9,488,211	98.37%	95,474
1997	16,918,760	2,799,851	7,169		19,725,780	19,440,306	101.47%	100,243
1998	18,367,532	3,172,289	12,787		21,552,608	21,493,871	100.27%	106,591
1999	20,084,730	3,033,622	13,187		23,131,539	23,152,739	99.91%	111,207
2000	21,326,285	3,258,632	13,776	122,244	24,720,937	24,822,367	99.59%	109,388

(1) Total taxes collected include property tax replacement funds distributed by the State of Indiana to each county in an amount equal to approximately 20% of the tax levy. However, the credit does have certain limitations, as it does not apply to cumulative building funds and most debt service funds established after January 1, 1984.

(2) Homestead Tax Credit paid by the State of Indiana.

(3) Personal Property Tax Credit paid by the State of Indiana to the Town for property assessments under $12,500.

(4) An excise tax is collected by the State of Indiana at the time license plates are purchased for automobiles, small trucks, and certain other property and is subsequently distributed to local taxing units. Effective January 1, 1990, a franchise tax is imposed on all corporations which are transacting the business of a financial institution. Prior to this time, Bank Building and Loan taxes were collected.

Large Taxpayers

The following is a list of the largest taxpayers in the Town of Burns Harbor, according to the records of the Porter County Treasurer's Office.

Name	Type of Business	2000/2001 Net Assessed Valuation	Percent of Net Assessed Valuation
Bethlehem Steel Corporation (1)	Fully integrated steel mill	$293,860,810	86.19%
Prax Air, Inc.	Industrial gasses	9,318,150	2.73%
J & F Steel Corporation	Steel processor	3,255,910	.96%
Twin Cast Property Leasing, Inc.	Industrial real estate	3,094,830	.91%
Magnetics International, Inc.	Produce iron oxide & hydrochloric acid	2,147,940	.63%
United States Can Co.	Lithograph center	1,777,690	.52%
Philip Metals, Inc. (dba Philips Services Corp.)	Steel mill service	1,755,010	.51%
State Street Bank & Trust Co. of Connecticut Trustee	Commercial real estate	1,742,370	.51%
Arnell Chevrolet	Automobile dealership	1,678,520	.49%
Bulk Transport Corporation	Trucking company	1,588,640	.47%
Totals		**$320,219,870**	**93.92%**

The total net assessed valuation of the Town of Burns Harbor for the year payable 2001 is $340,948,510.

(1) Bethlehem Steel Corporation is in the process of appealing its net assessed valuation. In addition, the Corporation has filed its personal property tax return for 2001 at a significantly lower amount than for its previous years. If the Corporation is successful in its appeal and the Corporation's 2001 personal property tax return remains as it is: (i) the Corporation's net assessed value would be reduced by approximately 49.4%; (ii) the total net assessed valuation for the Town of Burns Harbor would drop to approximately $195,920,010; and (iii) the percentage of the Town's net assessed valuation attributable to Bethlehem Steel Corporation would drop from 86.19% to approximately 75.97%.

The following schedules contain limited and unaudited financial information and are presented solely for the purpose of conveying a brief summary of the operations of the Town of Burns Harbor. Consequently, they do not include all disclosures required by generally accepted accounting principles.

Town of Burns Harbor, Indiana

Unaudited Schedule of Receipts and Disbursements
As of December 31, 1998 - All Funds

Fund	Balance @ 1/1/98 (1)	Receipts (2)	Disbursements (2)	Balance @ 12/31/98 (1)
General Fund	$ 304,424	$1,061,681	$1,022,207	$ 343,898
Motor Vehicle Highway	52,033	54,433	71,459	35,007
Local Road & Street	67,154	23,567	7,143	83,578
Parks & Recreation Fund	11,857	66,984	66,591	12,250
Cumulative Capital Impr. (Cigarette tax)	1,890	3,721	1,890	3,721
Police Donations	726	1,000		1,726
Payroll Deduction	(146)	168,070	169,455	(1,531)
Law Enforcement Cont. Education	8,334	62,127	64,597	5,864
Cumulative Capital Development Fund	295,140	120,356	37,764	377,732
Violations Bureau	3,360	335		3,695
Petty Cash	75			75
Fire Dept. Donations	81			81
Park Non-Reverting Fund	5,887	9,263	15,054	96
Park Donations	1,112	3,030	2,995	1,147
1994 Bond Construction	187,037	13,871	43,180	157,728
Cum. Capital Improvement-Sewer	376,317	65,193	10,000	431,510
Debt Service (Water Project)	19,564	236,042	205,627	49,979
Totals	**$1,334,845**	**$1,889,673**	**$1,717,962**	**$1,506,556**

(1) Includes temporary investments at cost.
(2) This schedule does not include investment transactions.

Town of Burns Harbor, Indiana

Unaudited Schedule of Receipts and Disbursements
As of December 31, 1999 - All Funds

Fund	Balance @ 1/1/99 (1)	Receipts (2)	Disbursements (2)	Balance @ 12/31/99 (1)
General Fund	$ 343,898	$1,203,359	$1,199,869	$ 347,388
Motor Vehicle Highway	35,007	124,537	124,876	34,668
Local Road & Street	83,578	27,391	51,642	59,327
Parks & Recreation Fund	12,250	76,089	74,679	13,660
Cumulative Capital Impr. (Cigarette tax)	3,721	3,581		7,302
Police Donations	1,726	161	100	1,787
Payroll Deduction	(1,531)	180,125	178,078	516
Law Enforcement Cont. Education	5,864	3,608	4,500	4,972
Cumulative Capital Development Fund	377,732	144,098	54,879	466,951
Violations Bureau	3,695	220		3,915
Petty Cash	75			75
Fire Dept. Donations	81	75		156
Park Non-Reverting Fund	96	6,061	2,649	3,508
Park Donations	1,147	595	1,078	664
1994 Bond Construction	157,728	1,998	159,726	
Cum. Capital Improvement-Sewer	431,510	73,090	22,618	481,982
Debt Service (Water Project)	49,979	201,609	224,893	26,695
Excess Levy		119,412	119,412	
Totals	**$1,506,556**	**$2,166,009**	**$2,218,999**	**$1,453,566**

(1) Includes temporary investments at cost.
(2) This schedule does not include investment transactions.

Town of Burns Harbor, Indiana

Unaudited Schedule of Receipts and Disbursements
As of December 31, 2000 - All Funds

Fund	Balance @ 1/1/00 (1)	Receipts (2)	Disbursements (2)	Balance @ 12/31/00 (1)
General Fund	$ 347,388	$1,143,463	$1,231,848	$ 259,003
Motor Vehicle Highway	34,668	96,748	67,599	63,817
Local Road & Street	59,327	33,925	28,403	64,849
Parks & Recreation Fund	13,660	65,180	78,840	
Cumulative Capital Impr. (Cigarette tax)	7,302	4,093	7,302	4,093
Police Donations	1,787		977	810
Payroll Deduction	516	167,279	172,159	(4,364)
Law Enforcement Cont. Education	4,972	3,059		8,031
Cumulative Capital Development Fund	466,951	143,335	72,857	537,429
Violations Bureau	3,915	1,359		5,274
Petty Cash	75			75
Fire Dept. Donations	156			156
Park Non-Reverting Fund	3,508	6,918	5,166	5,260
Park Donations	664	1,330	600	1,394
Sewer Bonds		700,000		700,000
Cum. Capital Improvement-Sewer	481,982	78,288	198,490	361,780
Debt Service (Water Project)	26,695	192,851	216,968	2,578
Sewer - Build IN Grant Fund		50,000	50,000	
Excess Levy		113,742		113,742
Totals	**$1,453,566**	**$2,801,570**	**$2,131,209**	**$2,123,927**

(1) Includes temporary investments at cost.
(2) This schedule does not include investment transactions.

Town of Burns Harbor, Indiana

Unaudited Comparative Schedule of Receipts and Disbursements
General Fund Only

	Calendar Year		
	1998	1999	2000
Balance, January 1st (1)	**$ 304,424**	**$ 343,898**	**$ 347,388**
Receipts:			
General Property Tax	841,012	893,616	881,189
Auto & Aircraft Excise Tax	4,899	4,949	4,520
Property Tax Repl. Credit	145,258	134,985	134,645
Homestead Credit	587	587	564
Personal Property Tax Repl. Credit			5,051
Licenses and Permits	15,879	14,864	13,358
ABC Excise & Gallonage Tax	2,475	1,423	2,178
State Cigarette Tax Distribution	2,905		8,418
Federal Aid - Jobs - Labor (FEMA)	5,005		
State & Federal Reimbursements		1,750	
County Reimbursement	618		
Charges for Services	12,352	6,075	2,116
Fines & Forfeits			67,000
Interest Earned	15,999	13,051	11,005
Insurance Reimbursements	6,471	43,348	2,945
Refunds	5,337	3,809	4,880
Miscellaneous	2,884	3,462	378
Cobra			5,216
Excess Levy		81,440	
Total Receipts (2)	**1,061,681**	**1,203,359**	**1,143,463**
Disbursements:			
Personal Services	714,619	721,912	704,351
Supplies	40,321	42,359	45,998
Other Services & Charges	210,825	249,151	244,694
Capital Outlay	46,971	66,297	85,943
Other Disbursements	9,471	37,902	15,523
Transfer of Funds		81,440	135,339
Adjustment		808	
Total Disbursements (2)	**1,022,207**	**1,199,869**	**1,231,848**
Balance, December 1st (1)	**$ 343,898**	**$ 347,388**	**$ 259,003**

(1) Includes temporary investments at cost.

(2) This schedule does not include investment transactions.

PENSION LIABILITIES

Employees of the Town of Burns Harbor have pensions funded under the Public Employees' Retirement Fund of the State of Indiana. Provided below is a statement of the unfunded accrued liability, as reported by PERF, as of June 30, 1999.

	Town of Burns Harbor
Number of employees	13
Accrued liability (surplus)	$(23,811)
Employer contribution (12 months ended 12/31/00)	$ 24,796
2001 employer rate of contribution	5.75%

ALLOCATION AREA

Background on the Establishment of the Allocation Area and Plan

The Town of Burns Harbor Redevelopment Commission (the "Redevelopment Commission") adopted a Declaratory Resolution on February 2, 2000 (the "Declaratory Resolution") establishing the Burns Harbor Economic Development Area and Allocation Area (the "Allocation Area") under Indiana Code 36-7-14 and Indiana Code 36-7-25 (collectively, the "Act"). The Allocation Area was expanded on November 8, 2000. The Declaratory Resolution allowed for the capture of tax increment resulting from the growth in real property assessed value and personal property assessed value from the "designated taxpayer," Praxair, Inc. ("Praxair"), (in excess of the base assessed value as defined in Indiana Code 36-7-14-39) that would occur in the Allocation Area. The Allocation Area lies along the U.S. 20 and State Road 149 corridors, as well as most of the other nonresidential areas of the Town, excluding real property owned by Bethlehem Steel.

Project Summary

In connection with the adoption of the Declaratory Resolution, the Redevelopment Commission approved an economic development plan (the "Plan") on February 2, 2000, and amended on November 8, 2000, to provide for the following improvements which will be in, serving, or befitting the Allocation Area: the purchase of a treatment plant and related improvements; and the construction of a sewage collection system (collectively, the "Project"). The Project is described in more detail in the Plan.

The Redevelopment Commission estimates its share of the costs associated with the Project to be approximately $6,420,000. The Redevelopment Commission anticipates that funding of this amount to implement the Plan will be generated from a combination of sources including, but not limited to, tax increment revenues, sewage works revenues, issuance of bonds, grants, or other revenue sources.

Definition of Tax Increment

The Town has pledged to the payment of debt service on the Redevelopment District Bonds the Tax Increment resulting from property taxes paid by owners of real property with respect to such real property and by the "designated taxpayer," Praxair, Inc. ("Praxair"), with respect to personal property owned by it (the "Tax Increment") within the Allocation Area, all of which is an allocation area within the meaning of the Act, and collected in the Allocation Fund of the Redevelopment Commission pursuant to the Redevelopment District Bond Resolution. All Tax Increment must be paid into the Allocation Fund under Indiana Code 36-7-14-39 and the Bond Resolution.

The "Tax Increment," in any particular year, is generally equal to the aggregate of all property tax proceeds derived from: (i) that portion of the assessed valuation, as of March 1 of the then preceding year, of all the real property in, and the depreciable tangible personal property of Praxair in, and any successor thereto on certain parcels in, an allocation area (the "Allocation Area") established by the Redevelopment Commission in accordance with Indiana Code 36-7-14, in excess of: (ii) the assessed valuation of all the real property and the depreciable tangible personal property of Praxair in the Allocation Area as of March 1 of the then preceding year (collectively, the "Increment"). The Tax Increment is then reduced by an amount equal to the property tax replacement credit (the "PTRC") granted to each taxpayer in the Allocation Area attributable to the Increment, which generally will reduce the Tax Increment by an amount equal to approximately 13.14% of the Increment, unless the Redevelopment Commission recommends that the Town Council of the Town adopt a resolution to deny the PTRC in the Allocation Area. The Redevelopment Commission has taken no action to deny the PTRC in the Allocation Area.

Pursuant to Indiana law, property taxes are due and payable to the County Treasurer each May 10th and November 10th. Before July 15th of the preceding calendar year, the Redevelopment Commission must determine and notify the County Auditor of the amount by which Tax Increment payable to the Allocation Fund is expected to exceed the amount of Tax Increment necessary to meet the obligations which may be legally paid with such Tax Increment, including debt service on the Redevelopment District Bonds. These excess property taxes may be paid to the other taxing units in which the Allocation Area is located so long as doing so will not jeopardize the interests of the owners of the Redevelopment District Bonds payable from the Tax Increment. After property taxes are paid to the County Treasurer as described above, on or before each June 30th and December 31st, such taxes are paid over to the County Auditor who, based on the previous year's certification, pays the portion of property tax receipts which represents Tax Increment into the Allocation Fund. Pursuant to the Redevelopment District Bond Resolution, all the Tax Increment collected will be paid immediately to the Allocation Fund and used to pay debt service on the Redevelopment District Bonds.

Estimated Tax Increment

The estimated amount of Tax Increment is based on investment information provided by Town officials. The Tax Increment estimate includes only assessments on personal property of Praxair and on the real property included in proposed developments which are anticipated to occur within the Allocation Area.

The establishment of the Allocation Area and the construction of the Project are anticipated to spur new private investment in the Allocation Area. There are several commercial and industrial developments which have been or are currently being constructed within the Allocation Area. Included in the new developments are the following industrial and commercial developments: Praxair plant expansion, Eagles Nest, LLC, and Arnell's Chrysler Plymouth Dodge. These developments were made possible because the prospect of completion of the proposed Project attracted the developments to the Area over other possible locations.

The incremental assessed value of the Allocation Area, after completion of the proposed developments, is estimated to reach approximately $2,833,430 by 2000 tax year payable 2001. (Real property and personal property assessed value estimates were based on investment estimates provided by the Town of Burns Harbor Building Commissioner's office and information obtained from the Westchester Township Assessor's office. Base year assessed values were obtained from the Westchester Township Assessor's Office.)

	Tax Year 2000 Payable 2001
Estimated Increase in Net Assessed Valuation - Real Property:	
Praxair, Inc. (personal property only) (1)	$2,033,330
Eagles Nest, LLC (2)	388,867
Arnell's Chrysler Plymouth Dodge (2)	401,233
Total estimated increase in net assessed valuations	2,833,430
2001 net tax rate (per $100 NAV) (3)	6.6717
Estimated annual tax increment from assumed developments (without abatements)	**$ 189,037**

(1) Estimates provided by the Westchester Township Assessor's Office and the Burns Harbor Building Commissioner's office.

(2) Information provided by the Westchester Township Assessor's office based on real property tax assessments from March 2000 and March 2001.

(3) Net of the PTRC and the county welfare general and administrative tax rate.

Note: The real property reassessment completed March 1, 1995, is based upon 1991 costs of land, material, and labor, and applies to 1995 taxes payable in 1996, through 2000 taxes payable in 2001. For taxing purposes, assessments made prior to March 1, 2001, are made at 33-1/3% of true tax value. Net assessed valuations represent the assessed value less certain deductions for mortgages, veterans, the aged and the blind, as well as tax-exempt property.

On December 4, 1998, the Indiana Supreme Court affirmed in part and reversed in part a ruling by the Indiana Tax Court that the true tax value method of valuing property for purposes of levying property taxes was unconstitutional. *Town of St. John v. State Board of Tax Commissioners*, 702 N.E.2d 1034 (Ind. 1998). The Indiana Supreme Court ruled that the true tax value method is constitutional but the current cost schedules used by the State Board of Tax Commissioners are unconstitutional. This ruling affects only the valuation method and not the ability of the Town to levy an unlimited property tax to pay debt service. On May 31, 2000 the Indiana Tax Court ordered the State Board of Tax Commissioners to complete the new assessment regulations by June 1, 2001 and to complete reassessment under those regulations by March 1, 2002. The State Board of Tax Commissioners has published the new assessment rules, which will be effective June 22, 2001. The Town cannot predict the impact on property tax collections, or the timing of, future judicial actions in this case, or legislation, regulations or rulings enacted to implement this ruling.

APPENDIX C

FORM OF BOND COUNSEL OPINION

__________, 2001

Indiana Bond Bank
Indianapolis, Indiana

Re: $_________ Indiana Bond Bank, Special Program Bonds, Series 2001 B
(Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of $___________ aggregate principal amount of its Special Program Bonds, Series 2001 B (Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project), dated as of the date hereof (the "Bonds"), pursuant to Indiana Code 5-1.5, as amended, and a Trust Indenture between the Issuer and First National Bank, Valparaiso, as trustee (the "Trustee"), dated as of June 1, 2001 (the "Indenture"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, each Qualified Entity (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of each Qualified Entity, dated the date hereof, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), the interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that each of the Issuer and the Qualified Entities comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Each of the Issuer and the Qualified Entities has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except for the opinion expressed in paragraph 5 hereof, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

6. Interest on the Bonds is exempt from income taxation in the State of Indiana (the "State") for all purposes except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement dated _________, 2001, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture. Capitalized terms in this summary not defined in this Official Statement shall have the meanings set forth in the Indenture.

Definitions

The following are definitions of certain terms used herein and elsewhere in this Official Statement.

"Accounts" means the accounts created under the Indenture.

"Act" means the provisions of Indiana Code 5-1.5-1 et seq., as from time to time amended.

"Authorized Officer" means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as amended from time to time.

"Bond Bank" means the Indiana Bond Bank, a body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

"Bondholder" or "holder of Bonds" or "owner of Bonds" or any similar term means the registered owner of any Bond.

"Bond Issuance Expense Account" means the account by that name created under the Indenture.

"Bonds" means the Series 2001 B Bonds and any Refunding Bonds.

"Burns Harbor General Obligation Bonds" means the General Obligation Bonds of 2001, dated June 28, 2001, and issued by the Town.

"Burns Harbor Redevelopment District Bonds" means the Redevelopment District Bonds of 2001, dated June 28, 2001, and issued by the Redevelopment Commission, in the name of the Town.

"Cash Flow Certificate" means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

"Clearing Agency" means initially The Depository Trust Company, and its successors and assigns, including any surviving, resulting or transferee corporation, or any successor corporation that may be appointed in a manner consistent with the Indenture and will include any direct or indirect participants of The Depository Trust Company.

"Code" means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2001 B Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of Bonds, which items of expense will include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter's discounts, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

"Credit Facility" means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

"Credit Provider" means the issuer of any Credit Facility and its successor in such capacity and their assigns. To qualify under the Indenture, the Credit Provider providing such Credit Facility will be either:

(i) an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds; or

(ii) a bank or trust company which at the time of issuance of such Credit Facility has an outstanding, unsecured, uninsured and unguaranteed debt issue rated in a rating category that is at least as high as the rating assigned to the Bonds by the rating agency or agencies rating the Bonds.

"Debt Service Reserve Fund" means the fund by that name created under the Indenture.

"Debt Service Reserve Fund Credit Facility" means any Credit Facility issued or provided by a Credit Provider (i) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (ii) which will be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

"Debt Service Reserve Fund Reimbursement Obligation" means any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

"Default" means an event or condition, the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

"Event of Default" means any occurrence of an event specified in the Indenture.

"Fees and Charges" means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Qualified Entities.

"Fiscal Year" means the twelve month period from July 1 through the following June 30.

"Funds" means the funds created under the Indenture (other than the Rebate Fund).

"General Account" means the account by that name created under the Indenture.

"General Fund" means the fund by that name created under the Indenture.

"Governmental Obligations" means (a) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America or (b) senior debt obligations of other government sponsored agencies approved by the Series 2001 B Bond Insurer.

"Indenture" means the Trust Indenture, dated as of June 1, 2001 between the Bond Bank and the Trustee, and all supplements and amendments entered into thereunder.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Earnings" means earnings and profits (after consideration of any accrued interest paid and/or amortization of premiums or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture, except the Rebate Fund.

"Investment Securities" means any of the following: (a) Governmental Obligations; (b) obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank;

Farm Credit System Financial Assurance Corporation; Rural Economic Community Development Administration (formerly the Farmers Home Administration); General Services Administration; United States Maritime Administration; Small Business Administration; Government National Mortgage Association ("GNMA"); United States Department of Housing and Urban Development ("PHAs"); Federal Housing Administration; and Federal Financing Bank; (c) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"); obligations of the Resolution Funding Corporation ("REFCORP"); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other government sponsored agencies approved by the Series 2001 B Bond Insurer; (d) United States dollar denominated accounts, federal funds and bankers' acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (e) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase; (f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P; (g) "Pre-refunded Municipal Obligations" defined as follows: any obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or (B)(i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Governmental Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the obligations described in this clause (B) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (h) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P; (i) investment agreements approved in writing by the Series 2001 B Bond Insurer, supported by appropriate opinions of counsel; and (j) other forms of investments (including repurchase agreements) approved in writing by the Series 2001 B Bond Insurer.

"Moody's" means Moody's Investors Service or any successor thereto.

"Opinion of Bond Counsel" means an Opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of states and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

"Outstanding" or "'Bonds Outstanding" means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

(i) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(ii) Bonds deemed paid under the Indenture; and

(iii) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

"Principal Payment Date" means the maturity date or the mandatory sinking fund redemption date of any Bond.

"Program" means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

"Program Expenses" means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

"Purchase Agreement" means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

“Qualified Entity” means an entity defined in I.C. 5-1.5-1-8, as amended from time to time, including the Town and the Redevelopment Commission.

“Qualified Obligation” means a Security (as that term is defined in the Act), including the Burns Harbor General Obligation Bonds and the Burns Harbor Redevelopment District Bonds, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Interest Payment” means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for principal and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Principal Payment” means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Rating Agency” or “Rating Agencies” means at any particular time Fitch, Moody’s or S&P, if at such time such entity has assigned a rating to the Bonds. If either such corporation ceases to act as a securities rating agency, the Bond Bank may appoint any other nationally recognized securities rating agency as a replacement.

“Rebate Fund” means the fund by that name created under the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth day of the calendar month next preceding such Interest Payment Date.

“Redemption Account” means the account by that name created under the Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption prior to maturity.

“Redevelopment Commission” means the Burns Harbor Redevelopment Commission.

“Refunding Bonds” means Bonds issued pursuant to the Indenture and any Supplemental Indenture for the sole purpose of refunding all or any part of the Bonds Outstanding.

“Reserve Requirement” means an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds, which at the time of issuance of the Series 2001 B Bonds means an amount equal to $922,388.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereto.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

“Series 2001 B Bond Insurance Policy” means the financial guaranty insurance policy issued by the Series 2001 B Bond Insurer insuring the payment when due of the principal of, and interest on, the Series 2001 B Bonds as provided therein.

“Series 2001 B Bond Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Series 2001 B Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2001 B (Burns Harbor Redevelopment District and Town of Burns Harbor Facilities Project), issued pursuant to the Indenture.

“State” means the State of Indiana.

"Supplemental Indenture" means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

"Town" means the Town of Burns Harbor, Indiana.

"Trustee" means First National Bank, Valparaiso, a national banking association organized and existing under the laws of the United States of America with its principal corporate trust office in Valparaiso, Indiana, or any successor thereto.

"Trust Estate" means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clause of the Indenture.

Revenues, Funds And Accounts

A. Creation of Funds and Accounts.

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund-comprised of the following:
   (a) General Account
   (b) Redemption Account
   (c) Bond Issuance Expense Account
2. Rebate Fund
3. Debt Service Reserve Fund

B. Deposit of Net Proceeds of Bonds, Revenues and Other Receipts.

The Trustee will deposit the proceeds (net of underwriter's discount) from the sale of the Series 2001 B Bonds, as follows:

(a) Into the Debt Service Reserve Fund, the amount which will satisfy the Reserve Requirement;

(b) Into the Bond Issuance Expense Account an amount sufficient to pay the Costs of Issuance (other than underwriter's discount and the bond insurance premium paid by the Underwriter directly to the Series 2001 B Bond Insurer);and

(c) Into the General Account, the remainder of the net proceeds for payment to the Town and the Redevelopment Commission in purchasing the Burns Harbor General Obligation Bonds and the Burns Harbor Redevelopment District Bonds, respectively, and for paying a portion of the interest on the Series 2001 B Bonds on February 1, 2002.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Bonds and moneys received upon the sale or optional redemption prior to maturity of Qualified Obligations) into the General Account. Any appropriations to the Trustee or the Bond Bank from the General Assembly of the State to replenish the Debt Service Reserve Fund will be deposited in the Debt Service Reserve Fund and applied in accordance with the Act and the Indenture.

The Trustee will deposit the proceeds of any Refunding Bonds in the manner provided in the Supplemental Indenture authorizing the issuance thereof.

Operation Of Funds And Accounts

A. General Fund.

1. General Account. The Trustee will make the following payments from the General Account on the specified dates, and, in the event of insufficient funds to make all of such required payments, with the following order of priority:

(a) On the date of initial delivery of the Series 2001 B Bonds, to purchase the Burns Harbor General Obligation Bonds and the Burns Harbor Redevelopment District Bonds, upon the submission of requisitions of the Bond Bank signed by an Authorized Officer stating that all requirements with respect to such financing set forth in the Indenture have been or will be complied with;

(b) On or before 10:00 A.M. in the city in which the Trustee is located on the business day next preceding each Interest Payment Date, such amount as will be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, to the Debt Service Reserve Fund sufficient amounts to assure that the Reserve Requirement is met from time to time;

(d) As necessary, to the Bond Bank amounts to pay Program Expenses, but only to the extent contemplated in the most recent Cash Flow Certificate;

(e) On or before 30 days after each anniversary of the issuance of the Bonds, the amounts to be transferred to the Rebate Fund; and

(f) After making such deposits, the Trustee will retain such remaining amounts in the General Account to be used from time to time for the purposes set forth in paragraphs (b) through (e) above. Upon final maturity of the Bonds, any money remaining in the General Account which is not needed to pay any of the costs set forth in paragraph (b) through (e) above in connection with the final maturity of the Bonds will be transferred within thirty (30) days after such final maturity to the Qualified Entities. However, the Bond Bank must supply the Trustee with a Cash Flow Certificate to the effect that, after such transfer, Revenues expected to be received and money expected to be held in the Funds and Accounts will at least equal debt service on all Outstanding Bonds.

2. Redemption Account. The Trustee will deposit in the Redemption Account all money received from the sale or optional mandatory redemption prior to maturity of Qualified Obligations and all other money required to be deposited therein pursuant to the provisions of the Indenture, and will invest such funds pursuant to the Indenture, and will disburse the funds in the Redemption Account as follows:

(a) On the fifteenth day of each month, to the General Account an amount equal to the principal which would have been payable during the following month if such Qualified Obligations had not been sold or redeemed.

(b) On the second business day prior to each Interest Payment Date, if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account such amounts as are not already committed to the redemption of Bonds for which notice of redemption has already been given.

(c) After provision has been made for the required transfers to the General Account, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, or (ii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption and not in excess of the applicable redemption price for such Bonds. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase will be made by the Trustee within the period of forty-five (45) days next preceding an interest payment date or a date on which such Bonds are subject to redemption under the provisions of the Indenture.

In the event the Trustee is unable to purchase Bonds in accordance with subparagraph (c), then, subject to restrictions on redemption set forth in the Indenture (see "The Bonds - Optional Redemption"), the Trustee will call for redemption on the next ensuing redemption date such amount of the Bonds of such maturity or maturities as directed by an Authorized Officer as, at the Redemption Price thereof, will exhaust the Redemption Account as nearly as may be possible. Such redemption will me made pursuant to the Indenture. The Trustee will pay the interest accrued on the Bonds so redeemed to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

3. Bond Issuance Expense Account. The Trustee will deposit in the Bond Issuance Expense Account the money required to be deposited by the Indenture, will invest such funds pursuant to the Indenture and will disburse the funds held in the Bond Issuance Expense Account upon receipt of acceptable invoices or requisitions, to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs. The Trustee will transfer any funds remaining in the Bond Issuance Expense Account to the General Account on December 1, 2001.

B. Debt Service Reserve Fund.

The Trustee: will deposit in the Debt Service Reserve Fund all money required to be deposited therein pursuant to the Indenture, any moneys appropriated by the General Assembly of the State to the Debt Service Reserve Fund, and any other moneys directed by the Bond Bank; will invest such funds pursuant to the Indenture; and will disburse the funds held in the Debt Service Reserve Fund to the General Account if, on the second business day next preceding each Interest Payment Date, the moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date after taking into account available funds on deposit in the General Account.

The Trustee will disburse the funds held in the Debt Service Reserve Fund to pay the principal of and interest on the Bonds only in the event that moneys in the General Fund are insufficient to pay such amount due. The Trustee will draw first on cash or Investment Securities on deposit in the Debt Service Reserve Fund and then on the Debt Service Reserve Fund Credit Facility or Facilities, if any, in accordance with the terms thereof.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in excess of the Reserve Requirement will be moved to the General Account or Redemption Account, as directed by the Bond Bank.

If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from any appropriations made by the General Assembly of the State or funds otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement.

If a deficiency in the Debt Service Reserve Fund is projected by the Bond Bank in the next succeeding Fiscal Year, the Chairman of the Bond Bank will certify such projected deficiency or depletion to the General Assembly of the State on or before August 1 of the Fiscal Year in which the deficiency is projected to occur.

The Bond Bank will take all actions required or allowed by the Act to certify to the General Assembly of the State any deficiency in the Debt Service Reserve Fund, regardless of whether such deficiency was projected by the Bond Bank.

C. Rebate Fund.

The Rebate Fund will be established to comply with the provisions of Section 148 of the Code concerning the rebate of certain arbitrage earnings to the United States of America. Deposits into the Rebate Fund and disbursements from the Rebate Fund will be made as provided by the Indenture and as required by federal tax law applicable to the Bonds. The Rebate Fund is not subject to the lien of the Indenture and does not constitute a Fund or Account for purposes of the Indenture.

So long as any of the Bonds are Outstanding and the Bond Bank is subject to a rebate obligation under the Code, the Bond Bank covenants to establish and maintain the Rebate Fund and to comply with the instructions relating to its ongoing rebate responsibilities delivered on the date of initial delivery of the Bonds. Such instructions will set forth procedures which may be amended from time to time.

E. Amounts Remaining in Funds.

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture and the fees, charges (including any required rebate to the United States of America) and expenses of the Trustee will be distributed to the Qualified Entities, unless otherwise provided for in the Indenture.

F. Investment of Funds.

Any money held as a part of any Fund or Account under the Indenture will be invested and reinvested at all times as continuously as reasonably possible by the Trustee in such Investment Securities as may be directed by the Bond Bank; provided, however, in the absence of such direction, the Trustee will select Investment Securities at its discretion. All such investments will be a part of the Fund or Account from which moneys were used to acquire such investments, and all income and profits on such investments will be deposited in the General Account except for income and profits on investment of funds in the Rebate Fund which will remain in the Rebate Fund and except for investment earnings on the Debt Service Reserve Fund which will remain in the Debt Service Reserve Fund until the balance in such fund equals the Reserve Requirement from time to time and thereafter be disbursed as provided in the Indenture. Any investment income, gains or losses from an Investment Security will be charged to the Fund or Account from which money was employed to invest in such Investment Security, subject to any requirements in the Act with respect to earnings on money appropriated by the General Assembly of the State to the Debt Service Reserve Fund. The Trustee will not be liable for any investment losses. Moneys in any Funds or Accounts will be invested in Investment Securities with maturity dates (or redemption dates determinable at the option of the owner of the Investment Security) coinciding as nearly as practicable with the times at which moneys in such Funds or Accounts will be required for transfer or disbursement under the Indenture. The Trustee will sell and reduce to cash sufficient amounts of such Investment Securities in a respective Fund or Account as may be necessary to make up a deficiency in any amounts required to be distributed from such Fund or Account.

For so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the following valuation procedures will apply. In computing the amount in any Fund or Account held under the Indenture, Investment Securities purchased as an investment of moneys therein will be valued as of the end of each month, as follows: (i) for securities: (a) the closing bid price quoted by Interactive Data Systems, Inc.; (b) a valuation performed by a nationally recognized and accepted pricing service acceptable to the Series 2001 B Bond Insurer, whose valuation method consists of the composite average of various bid price quotes on the valuation date; or (c) the lower of two dealer bids on the valuation date, with such dealers or their parent holding companies being rated at least investment grade by Moody's and S&P and market makers in the securities being valued; (ii) as to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest; and (iii) as to any Investment Security not specified above, the value thereof established by prior agreement between the Bond Bank, the Trustee and the Series 2001 B Bond Insurer.

Bond Bank Covenants

The Bond Bank covenants and agrees that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Bond executed, authenticated and delivered under the Indenture and in all of its related proceedings. The Bond Bank covenants and agrees: that it is duly authorized under the constitution and laws of the State, including particularly the Act, to issue the Bonds, to execute the Indenture and to pledge the Revenues and all other property pledged under the Indenture in the manner and to the extent set forth in the Indenture; that all action on its part for the issuance of the Bonds and the execution and delivery of the Indenture has been duly and effectively taken; and that the Bonds in the hands of their owners are and will be valid and enforceable limited obligations of the Bond Bank according to the terms of the Bonds and the Indenture.

The Bond Bank covenants and agrees that the Trustee may defend its rights to the payment of the Revenues for the benefit of the owners of the Bonds against the claims and demands of all persons whomsoever. The Bond Bank covenants and agrees that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such supplemental indentures and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming unto the Trustee all and singular the rights assigned by the Indenture and the amounts and other property pledged under the Indenture to the payment of the principal of and interest on the Bonds.

In order to provide for the payment of the principal, premium, if any, and interest on the Bonds and Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Indenture and sound banking practices and principles, (i) do all such acts and things as are necessary to receive and collect the Revenues (including enforcement of the prompt collection of all arrears on Qualified Obligations), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect its rights with respect to or to maintain any insurance on Qualified Obligations and to enforce all terms, covenants and conditions of Qualified Obligations including the collection, custody and prompt application of all escrow payments required by the terms of a Qualified Obligation for the purposes for which they were made. Whenever necessary in order to provide for the payment of the Bonds, the Bond Bank will commence appropriate remedies with respect to any Qualified Obligation which is in default.

With respect to the Qualified Obligations purchased by the Bond Bank, the Bond Bank covenants as follows:

(a) The Bond Bank will not permit or agree to any material change in the Qualified Obligation (other than one for which consent by the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate, to the effect that after such change, Revenues expected to be received in each Fiscal Year and other available money in Funds and Accounts will at least equal the debt service on all Outstanding Bonds in each such Fiscal Year.

(b) Only to the extent that such action would not adversely affect the validity of the Qualified Obligations or other obligations of the Qualified Entity, the Bond Bank will pursue the remedy set forth in the

Act, including particularly I.C. 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) The Bond Bank will also enforce or authorize the enforcement of all remedies available to owners or holders of Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal the debt service due on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies will be within the sole discretion of the Trustee.

(d) The Bond Bank will not sell or dispose of any Qualified Obligations unless the Bond Bank provides the Trustee with a Cash Flow Certificate, to the effect that after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale to be transferred from any Fund or Account, will at least equal the debt service due on all Outstanding Bonds in each such Fiscal Year. Proceeds of such sales will be invested only in Government Obligations or in Qualified Obligations or disbursed as provided in the Indenture.

Cash Flow Certificates and Verifications

At any time that the provisions of the Indenture require that a Cash Flow Certificate be prepared, such certificate will set forth:

(a) the Revenues expected to be received on all Qualified Obligations purchased with proceeds of the Bonds or with Revenues expected to be available for the purpose of financing additional Qualified Obligations;

(b) all other Revenues, including the interest to be earned and other income to be derived from the investment of the Funds and Accounts (other than the Rebate Fund) and the rate or yields used in estimating such amounts;

(c) all money expected to be in the Funds and Accounts (other than the Rebate Fund, and with respect to the Debt Service Reserve Fund, only to the extent described in paragraph (d) hereof);

(d) the amount, if any, expected to be withdrawn from the Debt Service Reserve Fund, but only if the amount on deposit in the Debt Service Reserve Fund is expected to at least equal the Reserve Requirement immediately after such withdrawal and such withdrawal is permitted by the Indenture;

(e) the debt service due on all Bonds expected to be Outstanding during each Fiscal Year; and

(f) the amount, if any, of Program Expenses expected to be paid from the Revenues.

In making any Cash Flow Certificate, the accountant or firm of accountants may contemplate the payment or redemption of Bonds for the payment or redemption of which amounts have been set aside in the Redemption Account. The issuance of Bonds, the making of transfers from one Fund to another and the deposit of amounts in any Fund from any other source may be contemplated in a Cash Flow Certificate only to the extent that such issuance, deposit or transfer has occurred prior to or will occur substantially simultaneously with the delivery of such Cash Flow Certificate. The accountant or firm of accountants must also supply supporting schedules appropriate to show the sources and applications of funds used, identifying particularly amounts to be transferred between Funds, amounts to be applied to the redemption or payment of Bonds and amounts to be used to provide for Costs of Issuance, the debt service reserve and capitalized interest, if any, for the respective Series. In the case of each annual Cash Flow Certificate, the amounts of existing Qualified Obligations, existing Investment Securities and existing cash will be the amounts as of the last day of the preceding Fiscal Year. In the case of any other Cash Flow Certificate such amounts will be the amounts as of the last day of the month preceding the month in which the Cash Flow Certificate is delivered but will be adjusted to give effect to scheduled payments of principal of and interest on Qualified Obligations, actual payments or proceeds with respect to Investment Securities and actual expenditures of cash expected by the Bond Bank through the end of the then current month.

The Bond Bank and/or the Trustee from time to time may cause a firm of independent certified public accountants of national standing or other nationally recognized experts to supply the Bond Bank and the Trustee with such information as the Bond Bank or the Trustee may request in order to determine in a manner reasonably satisfactory to the Bond Bank and the Trustee all matters relating to (a) the sufficiency of projected cash flow receipts and disbursements with respect to the Funds and Accounts to pay the principal of and interest on the Bonds and Program Expenses; (b) the actuarial yields on the Outstanding Bonds as the same may relate to any data or conclusions necessary to verify that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Code; (c) the yields on any obligations acquired and held by the Bond Bank and/or the Trustee; and (d) the rebate calculations required by the Indenture. The Bond Bank and/or the Trustee from time to time may also obtain an Opinion of Bond Counsel concerning postissuance compliance with any federal legislation applicable to the Bonds.

Covenants Concerning Preservation of Tax Exemption

The Bond Bank covenants that it will not take any action or fail to take any action with respect to the Bonds that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code. The Bond Bank further covenants that it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. These covenants of the Bond Bank are based solely on current law in effect and in existence on the date of delivery of the particular Series of Bonds.

It will not be an event of default under the Indenture if the interest on any of the Bonds is not excludable from gross income for federal tax purposes or otherwise pursuant to any provision of the Code as amended and supplemented, which is not currently in effect and in existence on the date of the issuance of such Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

The Bond Bank will rebate any necessary amounts to the United States of America to the extent required by the Code, as provided in the Indenture.

Notwithstanding any provision of the Indenture to the contrary, the Bond Bank may elect to issue a Series of Bonds, the interest on which is not excludable from gross income for federal tax purposes, so long as such election does not adversely affect the exclusion from gross income of interest for federal tax purposes on any other Series of Bonds, by making such election on the date of delivery of such Series of Bonds. In such case, the covenants concerning preservation of tax exemption will not apply to such Series of Bonds.

Accounts and Reports

The Bond Bank will keep proper books of record and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books and all other books and papers of the Bond Bank and all Funds and Accounts will, at all reasonable times, be subject to the inspection of the Trustee and the owners of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing. The permissive right of inspection by the Trustee will not be construed as a duty.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Covenant to Monitor Investments

The Bond Bank covenants and agrees to regularly review the investments held by the Trustee in the Funds and Accounts under the Indenture in order to assure that the Revenues derived from such investments are sufficient to provide, together with other anticipated Revenues, for the payment of the debt service on Outstanding Bonds.

Limitation on Additional Bonds

The only additional Bonds that may be issued under the Indenture are Refunding Bonds issued solely to refund all or any part of the Bonds Outstanding.

The Indenture creates a continuing pledge and lien to secure the full and final payment of the principal of, redemption premium, if any, and interest on all Bonds and authorizes the issuance of one or more Series of Bonds under separate Supplemental Indentures. The Indenture establishes the requirements for each Supplemental Indenture and provides that no Series of Bonds will be issued under a Supplemental Indenture unless certain conditions are met, including the receipt by the Trustee of a Cash Flow Certificate to the effect that, immediately after the issuance of such Bonds, Revenues in each Fiscal Year, together with moneys expected to be held in the

Funds and Accounts, will at least equal the debt service on all Bonds in each such Fiscal Year, including such Bonds. Such certificate will not be required in the case of Refunding Bonds if the debt service in each Fiscal Year on all Bonds after the issuance of such Refunding Bonds will be equal to or less than such debt service for each Fiscal Year on all Bonds Outstanding before the issuance of the Refunding Bonds.

Discharge of Indenture

If payment or provision for payment is made to the Trustee of the principal of, and interest on, the Bonds due and to become due under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will be payable only out of the money or securities held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds.

Any Bond or Series of Bonds or portion thereof will be deemed to be paid when (a) payment of the principal of that Bond or Series of Bonds, plus interest to its due date, either (i) has been made in accordance with its terms or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (A) moneys (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized by Governmental Obligations) sufficient to make such payment, (B) Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestments thereof, as will insure the availability of sufficient money to make such payments, or (C) a combination of such money and Governmental Obligations, and (b) all necessary and proper fees and expenses of the Trustee pertaining to the Bonds, including the amount, if any, required to be rebated to the United States of America, with respect to which such deposit is made have been paid or deposited with the Trustee.

Defaults and Remedies

A. Events of Default.

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) Default in the due and punctual payment of any interest on any Bond;

(b) Default in the due and punctual payment of the principal of any Bond, whether at stated maturity or on any date fixed for redemption;

(c) Failure of the Bond Bank to remit any moneys required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(d) Default in the performance or observance of any other covenants, agreements or conditions on the part of the Bond Bank contained in the Indenture or in the Bonds and failure to remedy the same within 60 days after receipt of notice, all in accordance with the Indenture;

(e) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture or in any instrument furnished in compliance with or in reference to the Indenture is found to be false or misleading in any material respect when made and there has been a failure to remedy the same within 60 days after receipt of notice, all in accordance with the Indenture;

(f) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days after such filing;

(g) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(h) The Bond Bank is generally not paying its debts as such become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(i) The Bond Bank fails to restore the Debt Service Reserve Fund to the Reserve Requirement within 60 days after the end of the Fiscal Year of the Bond Bank in which a deficiency occurs; or

(j) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

B. Trustee's Rights and Remedies.

No default described under subparagraphs (d) or (e) above will constitute an Event of Default until actual notice of the default by registered or certified mail has been given to the Bond Bank by the Trustee or by the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding and the Bond Bank has had 60 days after receipt of the notice to correct such default within the applicable period. If such default is correctable but cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by the Bond Bank within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence of an Event of Default, the Trustee will notify the Series 2001 B Bond Insurer and the owners of all Bonds then Outstanding of such Event of Default by registered or certified mail, and upon receiving the express written consent of the Series 2001 B Bond Insurer with respect to exercising any such remedies in connection with the Series 2001 B Bonds if the Series 2001 B Bond Insurance Policy is in full force and effect at such time, will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on Outstanding Bonds, including enforcement of any rights of the Bond Bank or the Trustee under the Qualified Obligations;

(b) The Trustee may by action or suit in equity require the Bond Bank to account as if it were the trustee of an express trust for the owners of the Bonds and may take such action with respect to the Qualified Obligations as the Trustee deems necessary or appropriate and in the best interest of the Owners of Bonds, subject to the terms of those Qualified Obligations;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Owners of Bonds under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; provided, however, for so long as the Series 2001 B Bond Insurance Policy is in full force and effect, any reorganization or liquidation plan with respect to the Bond Bank must be acceptable to the Series 2001 B Bond Insurer, and in the event of any reorganization or liquidation, the Series 2001 B Bond Insurer will have the right to vote on behalf of the holders of the Series 2001 B Bonds; and

(d) The Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act, by notice to the Bond Bank and the Attorney General of the State; provided, however, for so long as the Series 2001 B Bond Insurance Policy is in full force and effect, the Trustee may, with the consent of the Series 2001 B Bond Insurer, and will, at the direction of the Series 2001 B Bond Insurer or 25% of the holders of the Series 2001 B Bonds with the consent of the Series 2001 B Bond Insurer, by written notice to the Bond Bank, the Attorney General of the State and the Series 2001 B Bond Insurer, declare the principal of the Series 2001 B Bonds to be immediately due and payable, whereupon that portion of the principal of the Series 2001 B Bonds thereby coming due and the interest thereon accrued to the date of payment will, without further action, become and be immediately due and payable, anything in the Indenture or the Series 2001 B Bonds to the contrary notwithstanding.

If an Event of Default has occurred, if requested to do so in writing by the holders of 25% or more in aggregate principal amount of Outstanding Bonds and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise such of the rights, remedies and powers conferred by the Indenture, as the Trustee, being advised by counsel, deems most expedient in the interests of the holders of the Bonds.

The Owners of a majority in aggregate principal amount of Bonds then Outstanding will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or any other proceedings under the Indenture.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default and for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the Series 2001 B Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Series 2001 B Bonds or the Trustee for the benefit of the holders of the 2001 B Bonds under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Series 2001 B Bonds as described in the Indenture; and (ii) the right to annul any declaration of acceleration. The Series 2001 B Bond Insurer will also be entitled to approve all waivers of Events of Default.

C. Waivers of Events of Default.

At its discretion, the Trustee may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (i) more than 66 2/3% in aggregate principal amount of all the Bonds then Outstanding in respect of which an Event of Default in the payment of principal or interest exists or (ii) more than 50% in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (A) any Event of Default in the payment of the principal of any Outstanding Bond at the specified date of maturity or (B) any Event of Default in the payment when due of the interest on any Outstanding Bond unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the owners of Bonds will be restored to their former respective positions and rights under the Indenture. No waiver will extend to any subsequent or other Event of Default or impair any rights consequent thereon. Notwithstanding the foregoing, for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the Series 2001 B Bond Insurer will control all proceedings and the exercise of all rights or remedies with respect to the Series 2001 B Bonds.

D. Rights and Remedies of Owners of Bonds.

No owner of any Bond will have any right to institute any proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Indenture, unless (i) an Event of Default has occurred, (ii) the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, (iii) such owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (iv) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal and ratable benefit of the owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds. Notwithstanding the foregoing, for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the Series 2001 B Bond Insurer will control all proceedings and the exercise of all rights or remedies with respect to the Series 2001 B Bonds.

Nonpresentment of Bonds

If any Bond issued under the Indenture is not presented for payment when the principal becomes due, either at maturity, or at the date fixed for redemption, or as set forth in any Supplemental Indenture regarding deemed tenders or redemptions or otherwise, and if funds sufficient to pay such Bond have been made available to the Trustee for the benefit of the owner thereof, all liability of the Bond Bank to the owner thereof for the payment of such Bond will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such funds uninvested for five (5) years, for the benefit of the owner of such Bond, without liability for interest thereon to such owner, who will thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under the Indenture or on, or with respect to, such Bond.

Any money so deposited with and held by the Trustee in trust for the payment of the principal of and interest on the Bonds and remaining unclaimed by any Bondholder for five (5) years after the due date of such principal or interest, will be applied by the Trustee in accordance with the Unclaimed Property Act, I.C. 32-9-1.5, as amended from time to time. Prior to the transfer of any such moneys to the Attorney General of the State in accordance with the Unclaimed Property Act, the Trustee will conduct searches in an effort to locate lost Bondholders using reasonable care to ascertain the correct addresses of all lost Bondholders in accordance with the rules governing registered transfer agents promulgated by the Securities and Exchange Commission pursuant to the Securities Act of 1934, as amended, but only if and so long as the Trustee is a registered transfer agent under those rules. Upon the transfer of such moneys to the Attorney General of the State in accordance with the Unclaimed Property Act, the Bond Bank and the Trustee will have no further responsibility or liability with respect to such moneys, and the Bondholders entitled to such principal or interest will look only to the State for payment, to the extent provided by law, and then only to the extent of the amounts so received by the State, without any interest thereon.

Other Obligations Payable from Revenues

The Bond Bank will grant no liens or encumbrances on or security interests in the Trust Estate (other than those created by the Indenture), and, except for the Bonds, will issue no bonds or other evidences of indebtedness payable from the Trust Estate.

Limitations on Obligations of Bond Bank

The Bonds, together with interest thereon, are limited obligations of the Bond Bank payable solely from the Revenues of the Bond Bank and will be a valid claim of the respective owners thereof only against the Funds and Accounts, other than the Rebate Fund, established under the Indenture and the Qualified Obligations acquired by the Trustee, all of which are assigned and pledged for the equal and ratable payment of such Bonds and will be used for no other purpose than the payment of the Bonds, except as may be otherwise expressly authorized in the Indenture. The Bonds do not constitute a debt, or liability of the State, or of any political subdivision thereof, but will be payable solely from the Revenues and funds pledged therefor in accordance with the Indenture. The issuance of the Bonds under the provisions of the Act does not directly, indirectly or contingently, obligate the State or any political subdivision thereof to levy any form of taxation for the payment thereof or to make any appropriation for their payment and such Bonds and the interest payable thereon do not now and will never constitute a debt of the State or any political subdivision thereof within the meaning of the constitution of the State or the statutes of the State and such Bonds do not now and will never constitute a charge against the credit or taxing power of the State or any political subdivision thereof. Neither the State nor any agent, attorney, member, officer, director or employee of the State or of the Bond Bank, will in any event be liable for the payment of the principal of, and premium, if any, or interest on the Bonds or damages, if any, for the nonperformance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Bond Bank. No breach by the Bond Bank of any such pledge, mortgage, obligation or agreement may impose any liability, pecuniary or otherwise, upon the State or any of the State's or the Bond Bank's agents, members, attorneys, officers, directors and employees or any charge upon the general credit of the State, nor any political subdivision thereof.

Immunity of Officers and Directors

No recourse will be had for the payment of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained against any past, present or future officer, member, director, agent or employee of the Bond Bank, or any officer, member, director, trustee, agent or employee of any successor entities thereto, as such, either directly or through the Bond Bank, or any successor entities, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, directors, trustees, agents, or employees as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture and issuance of such Bonds.

Supplemental Indentures

The Bond Bank and the Trustee may with the prior written consent of the Series 2001 B Bond Insurer for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, but, without the consent of, or notice to, any of the Bondholders, enter into any indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgement of the Trustee, does not materially and adversely affect the interest of the owners of Outstanding Bonds and does not require unanimous consent of the Bondholders pursuant to the Indenture;

(c) To subject to the Indenture additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any indenture supplemental thereto in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;

(e) To evidence the appointment of a separate or co-trustee or the succession of a new Trustee under the Indenture or the succession of a new registrar and/or paying agent;

(f) To provide for the refunding of all or a portion of the Bonds issued under the Indenture; and

(g) To amend the Indenture to permit the Bond Bank to comply with any future federal tax law or any covenants contained in any Supplemental Indenture with respect to compliance with future federal tax law.

With the exception of Supplemental Indentures for the purposes described in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) have the right, from time to time, to consent to and approve the execution by the Bond Bank and the Trustee of any other indenture or indentures supplemental thereto as are deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture, but only with the express written consent of the Series 2001 B Bond Insurer for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect. However, no Supplemental Indenture may permit or be construed as permitting, without the consent of the owners of all then Outstanding Bonds and the Series 2001 B Bond Insurer for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, (i) an extension of the maturity dates of the principal of or the interest or redemption date on, any Bonds, or (ii) a reduction in the principal amount of any Bond or a change in the redemption premium or the rate of interest on any Bond, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, or (v) the creation of any lien securing any Bonds, other than a lien ratably securing all of the Bonds at any time Outstanding, (vi) a reduction in the Reserve Requirement, or (vii) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Trustee

By executing the Indenture, the Trustee accepts the trusts and duties imposed upon it by the Indenture, and agrees to perform such trusts and duties with the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs, but only upon and subject to the express terms and conditions of the Indenture.

The Trustee covenants and agrees to retain or cause its agent to retain possession of each Qualified Obligation and a copy of the transcript or documents related thereto and release them only in accordance with the provisions of the Indenture. The Bond Bank and the Trustee covenant and agree that all books and documents in their possession relating to the Qualified Obligations will at all times be open to inspection by such accountants or other agencies or persons as the Bond Bank or the Trustee may from time to time designate.

The Trustee and any successor Trustee may at any time resign from the trusts created by the Indenture by giving 30 days' written notice by registered or certified mail to the Bond Bank, the owner of each Bond as shown by the list of Bondholders required by the Indenture to be kept at the office of the Trustee, and, for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the Series 2001 B Bond Insurer. Such resignation will take effect upon the appointment of a successor Trustee and acceptance of such appointment by the successor Trustee. Notwithstanding any other provision of the Indenture and for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, no resignation or termination of the Trustee will take effect until a successor Trustee, acceptable to the Series 2001 B Bond Insurer, is appointed.

The Trustee may be removed at any time with or without cause by instrument or concurrent instruments in writing delivered to the Trustee and to the Bond Bank and signed by the owners of a majority in aggregate principal amount of all Bonds then Outstanding or their attorneys-in-fact duly authorized, but only with the express written consent of the Series 2001 B Bond Insurer for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect. Notice of the removal of the Trustee will be given as described in the paragraph above. So long as no Event of Default, or an event which with the passage of time would become an Event of Default, has occurred and is continuing, the Trustee may be removed at any time for cause by resolution of the Bond Bank filed with the Trustee. For so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, the Trustee may be removed at any time, at the request of the Series 2001 B Bond Insurer, for any breach of the trust set forth in the Indenture. Notwithstanding any other provision of the Indenture and for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, no removal or termination of the Trustee will take effect until a successor Trustee, acceptable to the Series 2001 B Bond Insurer, is appointed.

In case the Trustee resigns or is removed, or is dissolved, or is in course of dissolution or liquidation, or otherwise becomes incapable of acting under the Indenture, or in case it is taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of a majority in aggregate principal amount of all Bonds then Outstanding under the Indenture by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys-in-fact duly authorized, a copy of which will be delivered personally or sent by registered mail to the Bond Bank. Nevertheless, in case of such vacancy, the Bond Bank by resolution may appoint a temporary Trustee to fill such vacancy. Within ninety days after such appointment, the Bondholders may appoint a successor Trustee, and any such temporary Trustee so appointed by the Bond Bank will become the successor Trustee if no appointment is made by the Bondholders within such period, but in the event an appointment is made by the Bondholders, such temporary Trustee will immediately and without further act be superseded by any Trustee so appointed by such Bondholders. Notice of the appointment of a temporary or successor Trustee will be given in the same manner provided above with respect to the resignation of a Trustee. Every such Trustee so appointed will be a trust company or bank having its principal place of business in the State, will be duly authorized to exercise trust powers, will be subject to examination by federal or state authority, will have a reported capital and surplus of not less than $75,000,000, and, for so long as the Series 2001 B Bond Insurance Policy remains in full force and effect, will be acceptable to the Series 2001 B Bond Insurer, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Fl.
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)